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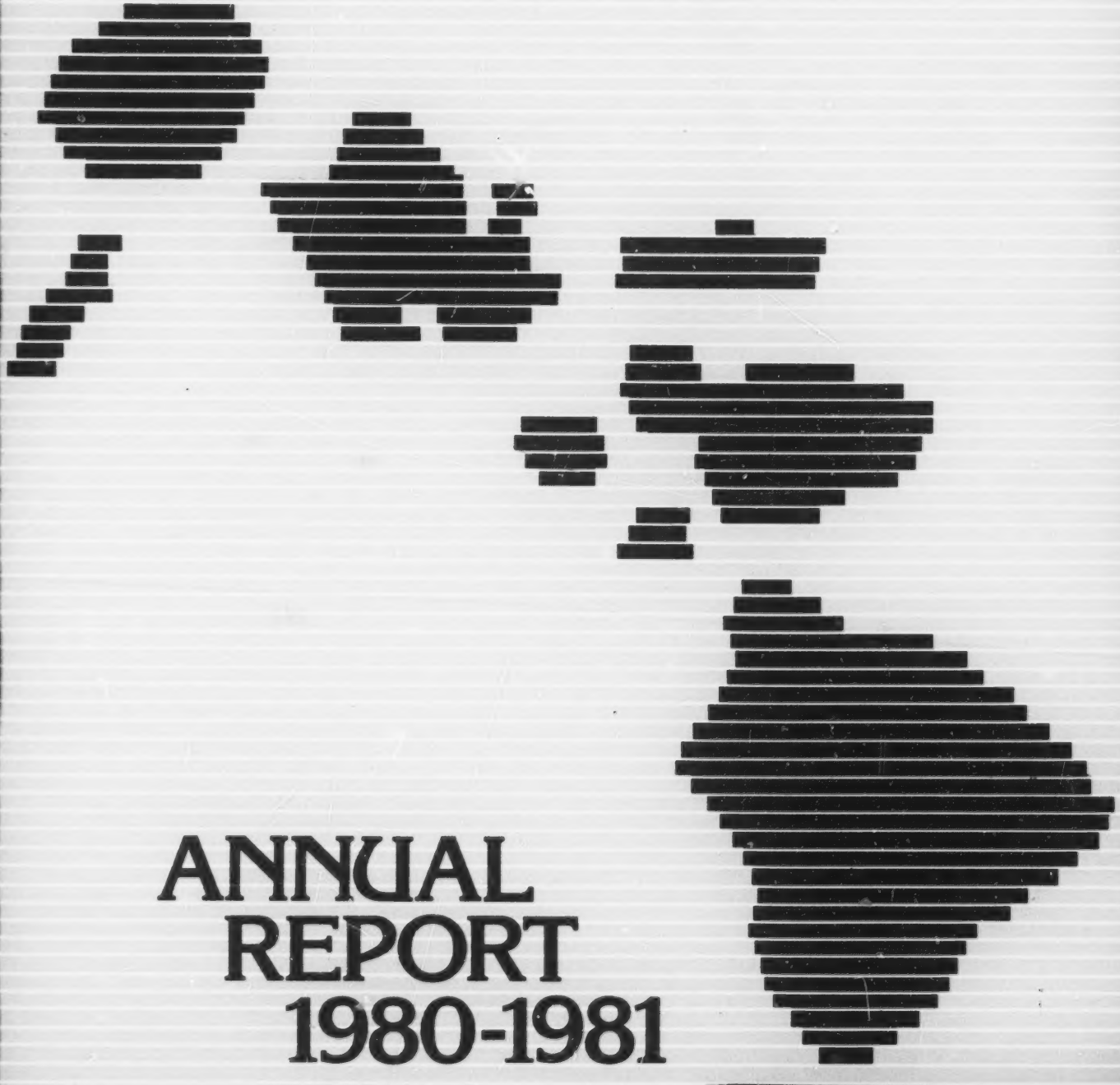
DEPARTMENT OF TAXATION



ANNUAL REPORT 1980-1981

BEST AVAILABLE COPY

The Honorable George R. Ariyoshi
Governor
State of Hawaii

George Freitas
Director of Taxation
State of Hawaii

GEORGE R. ARIYOSHI
GOVERNOR

GEORGE FREITAS
DIRECTOR OF TAXATION

WALLACE AOKI
DEPUTY DIRECTOR

DEPARTMENT OF TAXATION
STATE OF HAWAII

February 26, 1982

The Honorable George R. Ariyoshi
Governor of the State of Hawaii
State Capitol
Honolulu, Hawaii 96813

Dear Governor Ariyoshi:

This is my third Annual Report for the Department of Taxation. The Report summarizes the taxes we have collected in the past year. The reorganization of the office, with the transfer of real property to the counties as of July 1, 1981, and the employment of automation have helped to demonstrate our concern and effort towards improving the effectiveness of the Department of Taxation and the overall State Government.

The total tax collections received was $1.8 billion, or a percentage increase of 9.1% over 1979-80.

The fair and sensitive administration of tax laws is crucial to the existence of a just society of taxpayers. I feel privileged for the opportunity you have given me to participate in this important work of your administration.

The automation of general excise and withholding taxes and the reorganization of the department on functional basis to meet the workload with the automated system have insured efficiency in operation to assure that each taxpayer pays his fair share. We have started a taxpayer services section to supply taxpayers with the necessary data to comply voluntarily with the tax laws. Our past year's accomplishments will improve taxpayer services, information, cash collections, refunds, and audit programs.

The implementation of Phase I system design of the Net Income Tax automation has commenced and will be completed by April 2, 1982. We anticipate starting Phase II system programming and implementation on July 1, 1983. The net income tax automation system will greatly improve the processing of returns and will be conducive to accepting IRS tapes for taxpayer information on income and deductions.

I wish to congratulate all of our dedicated tax department employees in giving their best efforts to serve the people of Hawaii.

Respectfully submitted,

George Freitas

GEORGE FREITAS
Director of Taxation

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THE YEAR IN REVIEW

ADMINISTRATION

The Department has been actively engaged in developing more efficient and effective procedures to better serve Hawaii's taxpayers. Towards this end, several committees were established to assist in the redesign of the general excise and withholding system, to review the Department's organizational structure, and to identify programs within the Department for future automation.

The Department was assisted by Deloitte, Haskins & Sells in redesigning of the general excise and withholding system (GEW). To assist Deloitte, Haskins & Sells in the redesign, several committees were established to assure that all of the Department's needs were made known. These committees were the User Group, which represented all of the various users of the general excise and withholding system; a Peer Group, which represented management; and a Technical Group, which looked at the redesign from a systems and data processing point of view. The redesigned GEW tax system was substantially completed by June 30, 1981 after 12 months of intensive efforts. The redesigned GEW system was accepted by the Tax Department from the consultants on October 31, 1981.

A Reorganization Committee was established because the Department needed to be reorganized as a result of the transfer of the real property program to the Counties effective July 1, 1981. In addition, changes to the present organizational structure was needed as a result of the redesign of the general excise and withholding system. *Governor George Ariyoshi approved the reorganization of Oahu tax personnel on May 13, 1981 and the neighbor islands tax personnel on December 12, 1981.*

The Tax Department identified the net income tax system for automation and determined timetables for its implementation. The *Future Automation System Group was instrumental in successfully obtaining the Budget and Finance Department's Electronic Data Processing Division's approval to proceed with the net income automation system.* The Tax Department selected Alexander Grant & Co., CPA's as its consultant to complete Phase I of the net income system design.

GENERAL EXCISE AND USE TAX SYSTEM

The firm of Deloitte, Haskins & Sells completed its consultant contract of redesigning the general excise and withholding (GEW) tax system. After a thorough analysis of the existing operational system, recommendations for improvement were implemented during fiscal year ending June 30, 1981.

The identified areas of improvement centered on five major areas: operational procedures, physical considerations, forms design and usage, policy considerations, and systems design. Improvements in the operational procedures area were related to internal control and the duplication of effort; these were substantially improved by a major reorganization utilizing the divisional functional concept. Physical considerations centered around sequential processing functions being physically separated. This was corrected by consolidating all document processing activities to the first floor of the Hale Auhau building. The Department is in the process of requesting through the budget procedure to obtain several document and data processing equipment, namely, a high-speed letter opener and sorter, microfilming, cathode ray tubes, weighing and stamp machines, cash validaters, etc. Tax forms contents were revised for simplification and processing. The general excise and withholding forms were also separated into two sets of booklets. Policy considerations revolved around improving communication and cooperation among all functional areas being affected by the

GEW system. *The redesigned GEW system is presently operational and is providing a more current data base and faster inquiry turn around time for information.* In the future there will be further refinements to the GEW system, primarily in the area of error corrections procedures and billing format.

REAL PROPERTY PROGRAM

As mandated by the 1978 Constitutional Convention, the real property program is to be transferred to the Counties beginning July 1, 1981. A smooth transfer was made to the four counties; this was primarily due to our managers of the four real property offices working closely and cooperatively with officials from the four counties. The Real Property Program Office has drafted tax ordinances, revised rules and regulations and technical memoranda to conform to County requirements. *The groundwork and preplanning resulted in a smooth transfer on July 1, 1981.* Only one legislation affecting the real property program was enacted; namely, Act 78 which provides that the counties shall have Boards of Review and that all appeals taken to the State boards prior to July 1, 1981 shall be settled by the State boards and all appeals subsequent to June 30, 1981 will be settled by the respective county Boards of Review.

NATURAL DISASTER

Tax relief totalling $33,770.94 for the 1977-78 Drought Disaster accounts was processed during the year. Of the original 39 claimants, there are 23 left with tax credits amounting to $271,129.06 still outstanding. The five-year limitation period is due to expire on December 31, 1981.

PUBLIC RELATIONS AND INFORMATION

During the peak filing period of January through April, the Department continued its special taxpayer assistance program to assist taxpayers in filing their income tax returns. Augmenting the counter service was the telephone service, manned by tax auditors, for those who preferred to make inquiries by phone.

Rules and regulations, as well as tax information releases, were prepared and disseminated by the technical offices to apprise taxpayers of changes in the tax laws. The news media were utilized for publicizing filing deadlines and payment due dates.

A new taxpayer services branch was formed to assist the taxpayers in various facets of our tax operations. We were able to consolidate our tax clearances and licensing functions to a "one stop" counter service. The taxpayer services branch has worked with the Internal Revenue Service's VITA (voluntary income tax assistance) program throughout the State. This branch is able to advise the taxpayer in advance of changes to Hawaii tax laws and forms.

TAX RESEARCH AND PLANNING

The Tax Research & Planning Office provides technical support to the newly formed Council on Revenues, which was established under a 1980 law in conformance with a 1978 constitutional amendment. Its seven members include three named by the Governor, two by the Senate president, and two by the House speaker.

The technical support provided by the Tax Research & Planning Office involves developing statistical and economic models for forecasting general fund revenues and total personal income for the State, monitoring key economic indicators, and determining the revenue impact of new tax laws.

The Council has two purposes: to prepare revenue estimates of the State government for the fiscal year in progress and for each of the ensuing fiscal years of the the six-year State program and financial plan, and to estimate total State personal income for the calendar year in progress. The Governor and the Legislature have to consider the

Council's revenue estimates in their budgeting process. They may adopt different estimates, but if they do they have to announce it publicly along with the reasons for the change. The estimate of total personal income is the basis for establishing the general fund expenditure ceiling.

Total State personal income is difficult to forecast because past personal income data are constantly being revised. Nevertheless, the Council forecast a total State personal income growth rate of 11.5% for calendar 1980. Preliminary data indicate a growth rate of 12.7%.

The Council's general fund revenue estimate for fiscal 1980-81 was a growth rate of 10.2% and the actual growth rate was 5.6%.

A third consecutive report on tax credits was prepared by the Tax Research & Planning Office. This report, based on tax credits claimed by Hawaii residents on their individual income tax returns filed in 1979, was published in February, 1981 to determine the revenue impact of five types of tax credits: the renter's, excise, child care expense, solar energy device, and hot water heater insulation tax credits.

Highway fuel tax revenues for fiscal 1981 were forecast to decline by 2.2% to $28.6 million. The actual collection was $28.5 million. Gasoline consumption declined from 318 million gallons in fiscal 1980 to 308 million gallons in fiscal 1981.

The Tax Research & Planning staff reviewed more than 150 tax measures introduced during the 1981 legislative session to determine the revenue impact of each proposal. A brief summary of the tax measures enacted is presented under "Legislation."

PERSONNEL MANAGEMENT

The Legislature authorized the department 434 positions for the fiscal year. The positions were geographically distributed as follows: Oahu 316, Hawaii 59, Maui/Molokai 37, and Kauai 22.

Movement within the Department were characterized by 26 civil service new hires for permanent regular positions, 92 hires for temporary appointments; 20 retirements, 113 terminations (of which 82 were promotions, transfers and reallocations).

STAFFING PATTERN

(Number of Authorized Permanent Positions)

By Organization/Operating Programs	1981	1980	1979
Headquarters Administration	79	79	78
Field Administration	10	10	9
Property Assessment	112	112	112
Income Assessment & Audit	157	156	158
Collections	76	76	75
TOTAL	434	433	432

Note: Above does not include: a) temporary clerical support positions utilized during the peak periods and special projects; b) temporary positions supported by federal funds under the U.S. Comprehensive Employment and Training Act (CETA), and c) temporary student positions during the summer.

STATE OF HAWAII
DEPARTMENT OF TAXATION

ADMINISTRATIVE STAFF

OFFICE OF THE DIRECTOR

Director of Taxation ..... George Freitas
Deputy Director of Taxation ..... Wallace Aoki

HEADQUARTERS STAFF

Income Program Officer ..... Tomotaru Ogai
Real Property Program Officer ..... Edwin Ferreira[1]
Tax Collection Program Officer ..... Robert Hee
Tax Research and Planning Officer ..... Richard W. Swanson
Tax Systems & Procedures Officer ..... Kenneth Murayama
Administrative Services & Accounting Officer ..... Gilbert Chang
Personnel Officer ..... Herbert Chun/Kenneth Nishihara

OPERATIONS STAFF

District Tax Administrator, Oahu District Office ..... Herbert Dias
  Propety Assessment Branch[1] ..... Clement Young
  Income Assessment & Audit Branch ..... David Miyahira
  Collections Branch ..... Harold Yamane/Wayne Kinoshita
District Tax Administrator, Maui District Office ..... Isao Sato
  Property Assessment Branch[1] ..... Henry Lau/Frederico Asuncion
  Income Assessment & Audit Branch ..... James Horikawa
  Collections Branch ..... Stanley Ching
District Tax Administrator, Hawaii District Office ..... Sanford Yanagi
  Property Assessment Branch[1] ..... Gary Kiyota
  Income Assessment & Audit Branch ..... Ronald Yabe
  Collections Branch ..... Wendell Serrao
District Tax Administrator, Kauai District Office ..... Thomas Nishimitsu
  Property Assessment Branch[1] ..... Reginald P. Gage, II
  Income Assessment & Audit Branch ..... Ernest Balderas
  Collections Branch ..... Helen Teraoka

[1] *Transferred to Counties effective July 1, 1981.*

ADMINISTRATIVE STAFF
EFFECTIVE MAY 13, 1981

OFFICE OF THE DIRECTOR

Director of Taxation ..... George Freitas
Deputy Director of Taxation ..... Wallace Aoki

HEADQUARTERS STAFF

Income Program Officer ..... Tomotaru Ogai
Tax Research and Planning Officer ..... Richard W. Swanson
Systems and Procedures Officer ..... Kenneth Murayama
Administrative Services Officer ..... Gilbert Chang

OPERATIONS STAFF

Compliance Division Chief[2] ..... Herbert Dias
  Audit Branch ..... David Miyahira
  Enforcement Branch ..... Wayne Kinoshita
Tax Services & Processing Division Chief[3] ..... Vacant
  Taxpayer Services Branch ..... Vacant
  Document Processing Branch ..... Vacant
  Revenue Accounting Branch ..... Warren Higashi

Effective December 12, 1981:[4]

Compliance Division Chief ..... Herbert Dias
  Audit Branch (Oahu) ..... David Miyahira
  Enforcement Branch (Oahu) ..... Wayne Kinoshita
  Audit Branch (Maui) ..... James Horikawa
  Enforcement Branch (Maui) ..... Stanley Ching
District Tax Administrator, Hawaii District Office ..... Sanford Yanagi
  Audit Branch ..... Ronald Yabe
  Enforcement Branch ..... Wendell Serrao
District Tax Administrator, Kauai District Office ..... Thomas Nishimitsu
  Audit Branch ..... Ernest Balderas
  Enforcement Branch ..... Helen Teraoka
Tax Services & Processing Division Chief ..... Vacant
  Taxpayer Services Branch ..... Vacant
  Document Processing Branch ..... Vacant
  Revenue Accounting Branch ..... Warren Higashi

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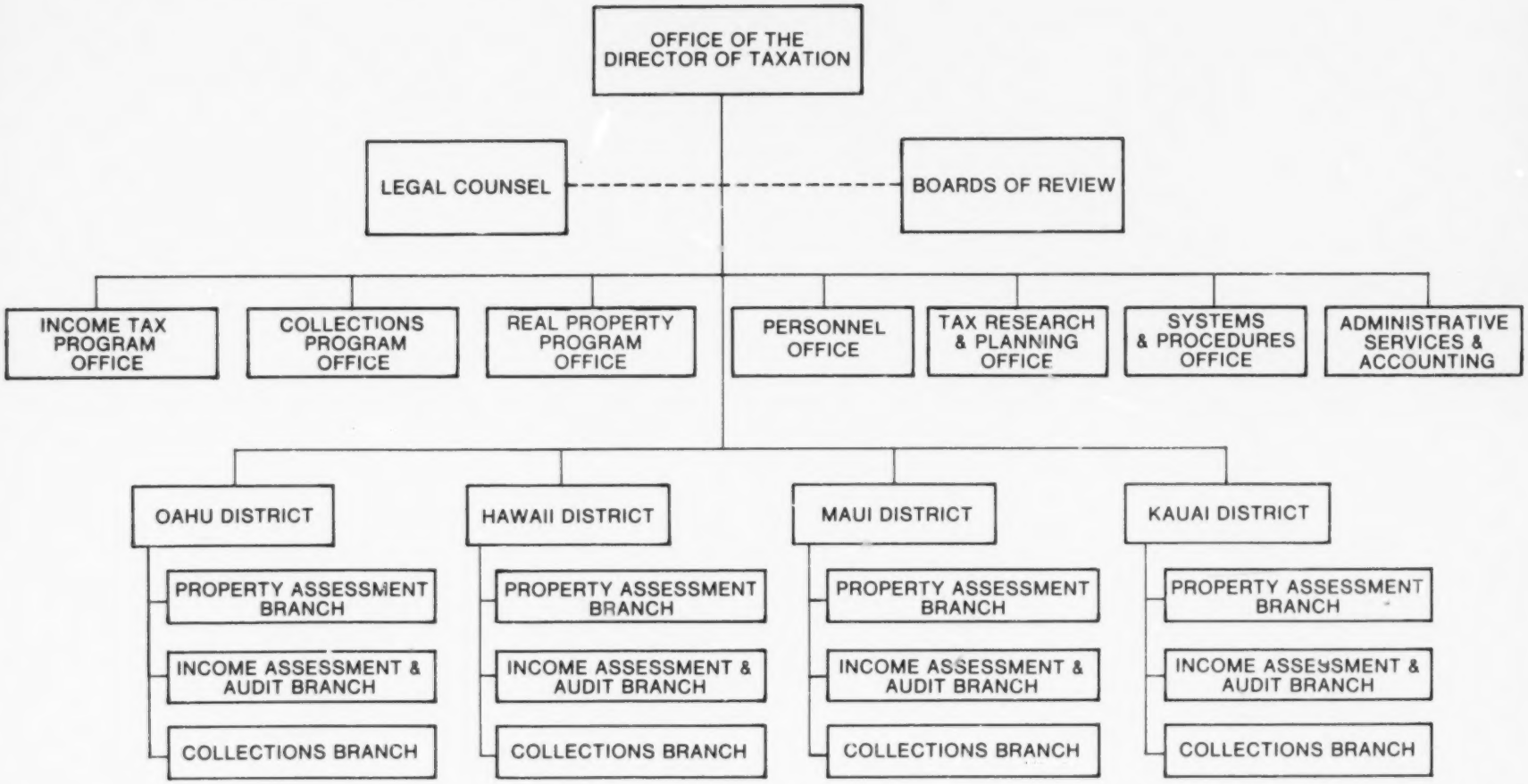
[2] *Oahu District Office converted to Compliance Division and Branches renamed — Reorganization approved May 13, 1981.*
[3] *New Division and Branches — Reorganization approved May 13, 1981.*
[4] *Reorganization approved December 12, 1981 placed neighbor island District Offices and Branches organizationally under Compliance Division.*

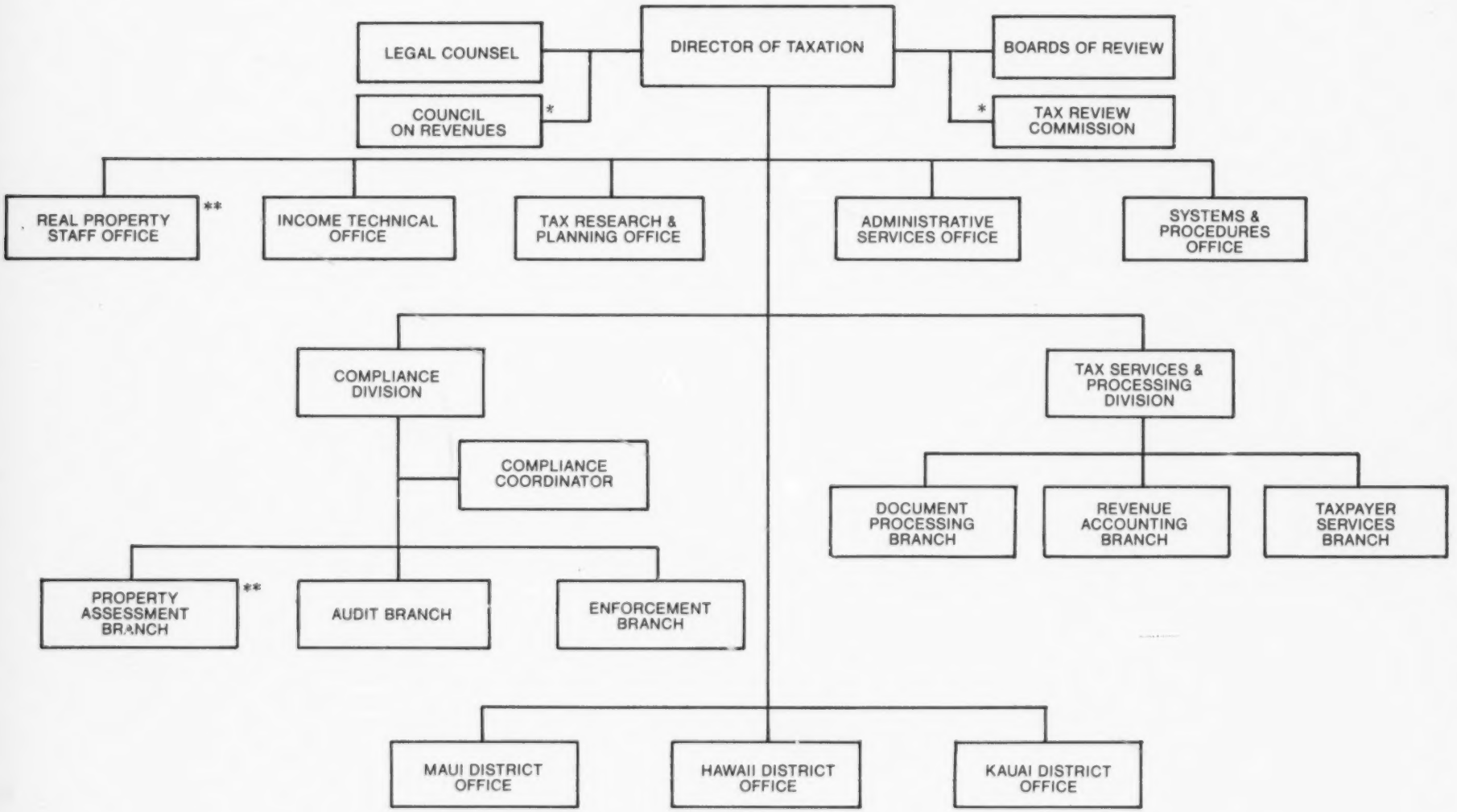
ORGANIZATION CHART

Department of Taxation
State of Hawaii



ORGANIZATION CHART

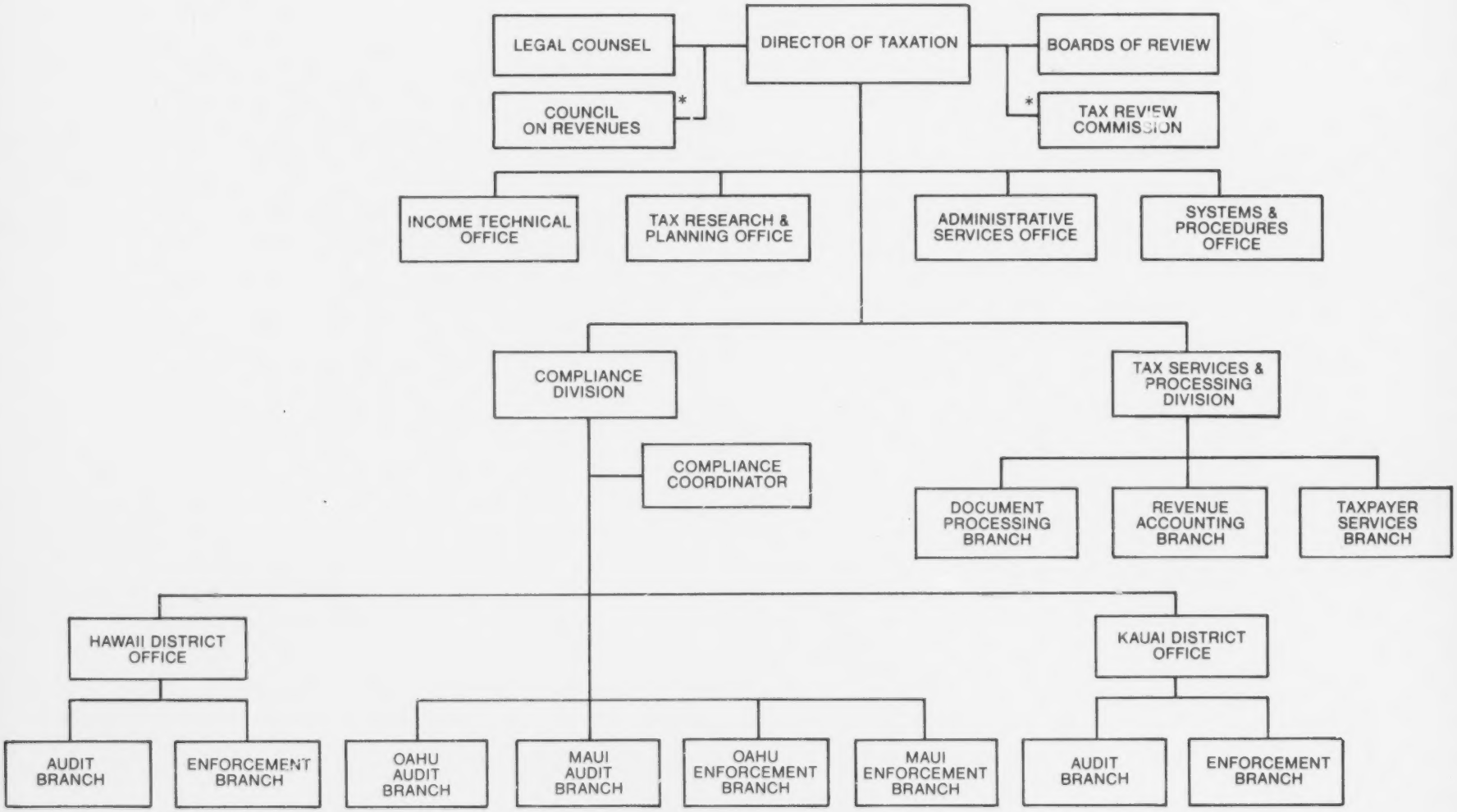
Department of Taxation
State of Hawaii
(Effective May 13, 1981)



*For Administrative Purpose.
**Temporary to 6/30/81 when transferred to County Jurisdiction.

ORGANIZATION CHART

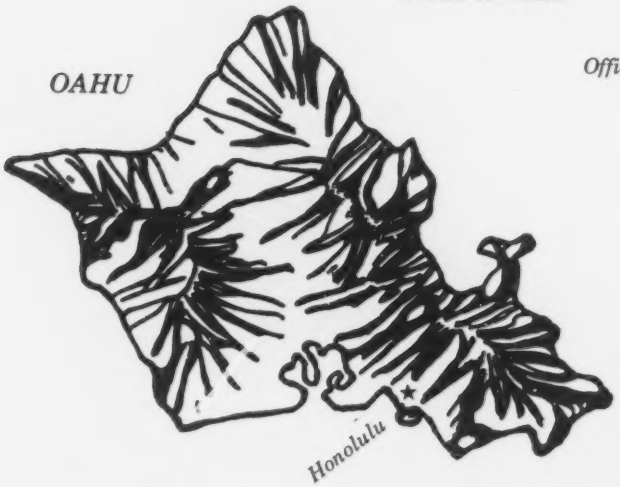
Department of Taxation
State of Hawaii
(Effective December 12, 1981)



*For Administrative Purpose.

FIRST TAXATION DISTRICT

Island of Oahu



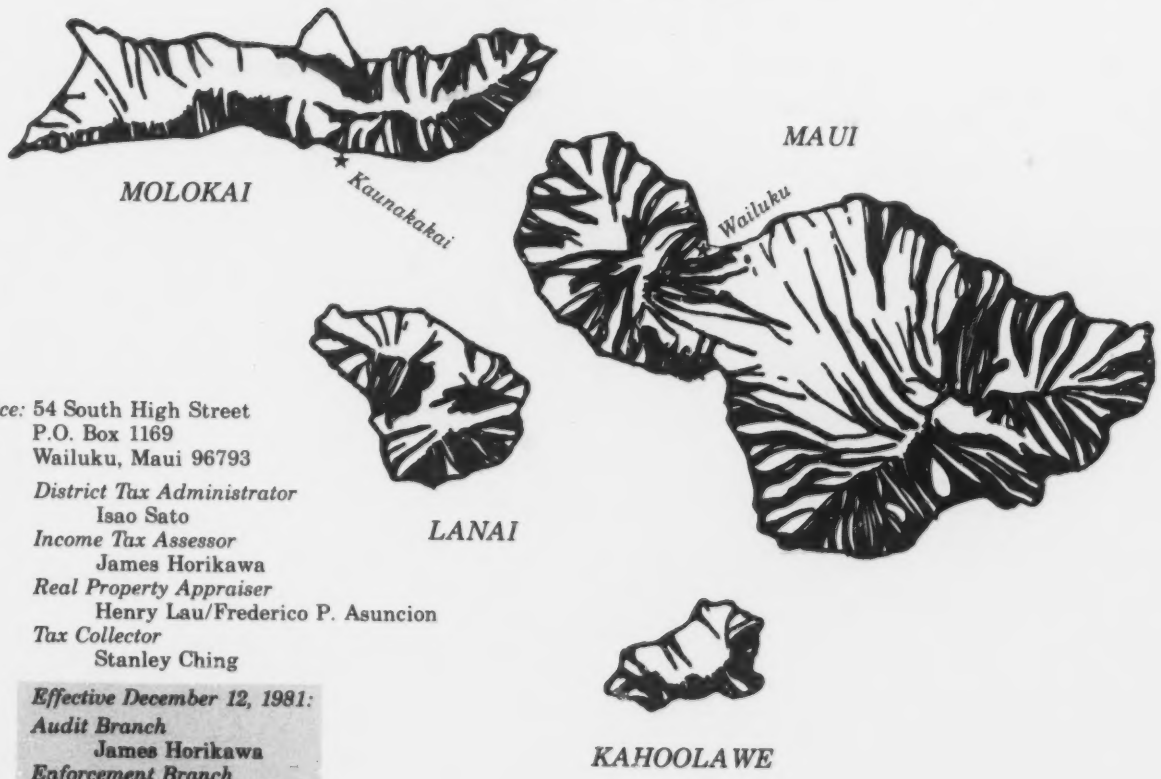
Office: 425 Queen Street
P.O. Box 259
Honolulu, Hawaii 96809

District Tax Administrator
Herbert Dias
Income Tax Assessor
David Miyahira
Real Property Appraiser
Clement Young
Tax Collector
Harold Yamane/Wayne Kinoshita

Effective May 13, 1981:
Compliance Division Chief
Herbert Dias
Audit Branch Chief
David Miyahira
Enforcement Branch Chief
Wayne Kinoshita

SECOND TAXATION DISTRICT

Islands of Maui, Molokai, and Lanai



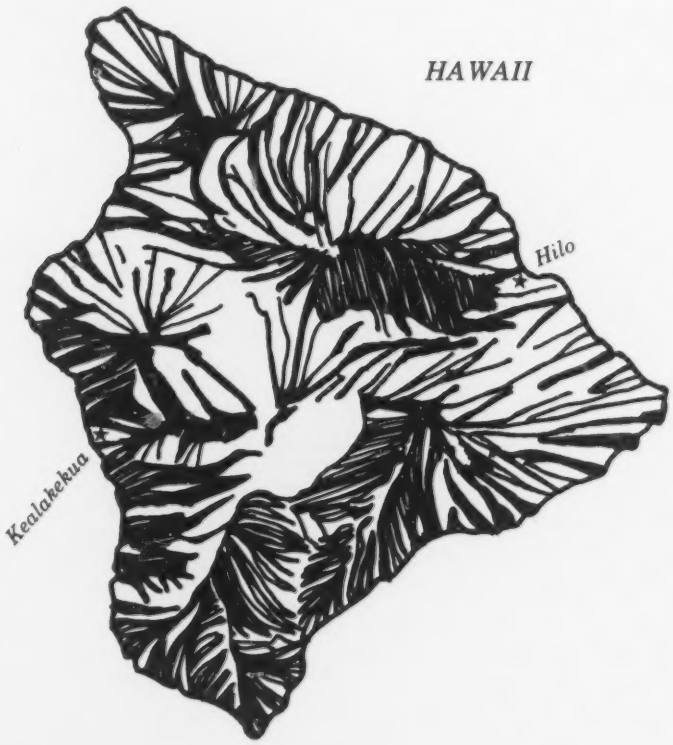
Office: 54 South High Street
P.O. Box 1169
Wailuku, Maui 96793

District Tax Administrator
Isao Sato
Income Tax Assessor
James Horikawa
Real Property Appraiser
Henry Lau/Frederico P. Asuncion
Tax Collector
Stanley Ching

Effective December 12, 1981:
Audit Branch
James Horikawa
Enforcement Branch
Stanley Ching

THIRD TAXATION DISTRICT

Island of Hawaii



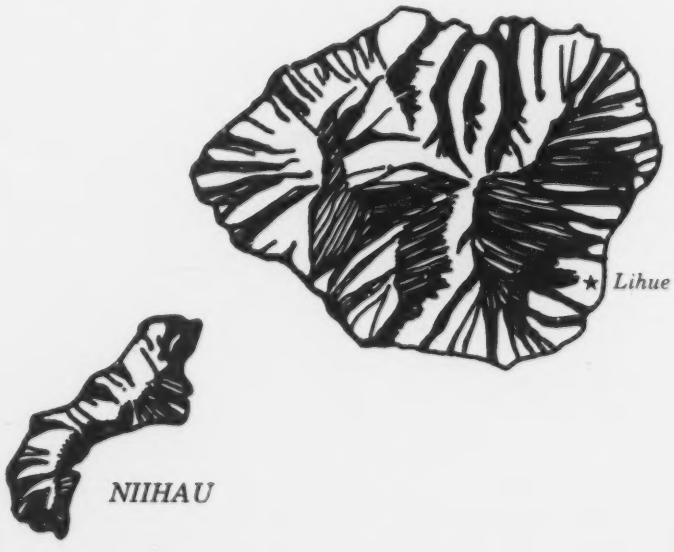
Office: 75 Aupuni Street
P.O. Box 1377
Hilo, Hawaii 96720

District Tax Administrator
Sanford Yanagi
Income Tax Assessor
Ronald T. Yabe
Real Property Appraiser
Gary Kiyota
Tax Collector
Wendell Serrao

Effective December 12, 1981:
District Tax Administrator
Sanford Yanagi
Audit Branch
Ronald Yabe
Enforcement Branch
Wendell Serrao

FOURTH TAXATION DISTRICT

Islands of Kauai and Niihau



Office: 3060 Eiwa Street
P.O. Box 1689
Lihue, Kauai 96766

District Tax Administrator
Thomas Nishimitsu
Income Tax Assessor
Ernest Balderas
Real Property Appraiser
Reginald Gage
Tax Collector
Helen Teraoka

Effective December 12, 1981:
District Tax Administrator
Thomas Nishimitsu
Audit Branch
Ernest Balderas
Enforcement Branch
Helen Teraoka

TAX LITIGATION

BOARDS OF REVIEW

The Oahu Board of Review started the year with 2,053 pending real property appeals. By year's end, 1,562 were settled of which 1,064 were in favor of the State. The Board sustained $174.4 million in assessed valuations in the State's favor and reduced the values of 498 appellants by $67.1 million. By the close of the fiscal year, 1,288 appeals were filed, leaving a total of 1,779 cases still unresolved.

Five general excise and use tax appeals and 16 net income appeals were pending from fiscal 1980. During the year, 16 appeals were added, all of which were income tax appeals. The Board settled 16 income tax appeals. One appeal was found in favor of the taxpayer and 12 favored the State, while three income tax appeals were withdrawn. Still pending before the Board are 21 income tax appeals.

Maui district shows a total of 392 real property appeals pending at the start of the fiscal year. The district experienced 447 new appeals. During the year, the Board reviewed 317 appeals, of which 140 favored the State in assessments valued at $19.0 million. The appellants were favored in 177 cases and their assessed values were reduced by $9.6 million.

There was a carryover of 6 income tax and 10 general excise tax appeals at the start of the fiscal period. An additional income tax and two general excise tax appeals were filed. There were no Board of Review hearings during fiscal 1981, leaving a carryover of 7 income tax and 12 general excise tax appeal cases to fiscal 1982.

The Hawaii Board of Review again resolved all of the 136 appeals pending at the start of the year. The assessed values in dispute were $15.4 million. Decisions favoring the State numbered 75 and the assessed values totaled $8.7 million. The Board ruled in favor of the appellants in 61 of the cases and reduced the assessed values by $6.7 million. Pending at the end of the year were 84 appeals filed on 1981 assessments.

There were 17 income tax and 3 general excise tax appeals pending at the start of the year. An additional 6 income tax and 5 general excise tax appeals were added to the docket. By year's end, 4 income tax and 6 general excise tax cases were resolved. Carried over into fiscal 1982 are 19 income tax and 2 general excise tax appeals.

Kauai's Board of Review faced a carryover of 552 real property tax appeals at the start of the year. A total of 159 cases were resolved with 72 in favor of the State, and assessed values of $5.1 million were sustained. Values amounting to $3.2 million were reduced for 87 appellants. An additional 209 appeals were filed leaving a carryover of 602 cases to fiscal 1982.

The only income tax appeal pending at the beginning of the fiscal year on the question of residency was resolved with a determination that additional assessment was due the State. No new appeals were filed during the year.

TAX APPEAL COURT

Decisions on 28 cases were rendered by the Tax Appeal Court. By year's end, 22 new cases were added to the court's calendar. Summarized below are some of the major cases heard by the Court. All of the decisions below were taken on appeal to the Supreme Court.

Richard H. and Betty E. DeRoy — *Decided on 6/19/80*

The case involved the assessment under Chapters 235 and 237, HRS, of Hawaii general excise and net income taxes for the tax year 1978 against Richard H. and Betty E. DeRoy (hereinafter "Taxpayers").

The assessments were undertaken because of Taxpayers' filing of "blank" general excise and net income tax returns for the 1978 tax year, which returns contained no information regarding income, deductions and other items necessary to compute Taxpayers' tax liability.

Taxpayers were informed by letter that their returns were improper and incomplete, and they were requested to file proper returns with the Department. They failed to file proper returns as requested by the Department, and as a result a subpoena duces tecum was issued and served on Taxpayers to appear at the Department's Hilo office and to bring with them and make available for examination by the Department all account books, bank books, bank statements and other documents. While Taxpayers did appear at the time and place specified in the subpoena, they refused to produce said books and records for Department examination. Based on this refusal by Taxpayers to submit to an audit and make books and records available, assessments of Hawaii general excise and net income taxes were made in accordance with the provisions of HRS Sections 235-107, 235-108, 237-36, 237-38 and 237-39. These assessments were based on the best information available, which information consisted of the following: 1. Taxpayers' 1977 Hawaii income tax assessment; 2. Taxpayers' 1977 Hawaii general excise tax quarterly returns; 3. Taxpayers' 1976 Hawaii income tax return; and 4. Richard H. DeRoy's involvement in real estate transactions and sales as a licensed real estate salesman.

Subsequent to this assessment, Notices of Proposed Assessments were mailed to Taxpayers. Upon receipt of this Notice, Taxpayers appeared at the Department and inquired as to the basis for the assessment. The above-cited bases for the assessment were explained to Taxpayers, but Taxpayers did not question the assessment and they made no attempt to produce anything indicating that the proposed assessments were incorrect. Thus, after this meeting with Taxpayers, the Department sent out Notices of Assessment.

At a hearing on the Appellee/Director's Motion for Summary Judgment, Taxpayers argued that the Department's assessments were "naked" assessments without factual basis and that their bank records, which were subpoenaed shortly before the hearing on the Motion, were the best information available.

In addition, Taxpayers argued that their refusal to produce books and records was based on a valid Fifth Amendment claim.

However, based on the "blank" returns filed by Taxpayers, the repeated refusals by Taxpayers to make available to the Department books and records upon which an assessment could be made, the various notices of the improper returns and proposed assessments sent to Taxpayers, and the numerous opportunities available to Taxpayers to show that the assessments were incorrect, the Court granted the Appellee/Director's Motion for Summary Judgment. The Court rules that the Department had made its assessments in conformance with the statutory provisions and that the question of the "best information available" involved a question of law, and that there was no genuine issue of fact. In addition, the Court ruled that Taxpayers' Fifth Amendment claim was meritless.

E-Z Serve, Inc. *Decided on 1/5/81*

The Taxpayer is a foreign corporation engaged in the business of distributing gasoline, diesel fuel and other petroleum products. It has not registered as a foreign corporation in this State and has neither been issued nor has filed tax returns with this State. The Taxpayer has entered into an exchange agreement with Hawaii Independent Refinery, Inc., by which its demands for petroleum products in Hawaii will be delivered by HIRI and, conversely, where HIRI desires petroleum products on the mainland, delivery thereof shall be made to the Taxpayer or to its nominee on account of the Taxpayer in the Foreign Trade Zone. The gasoline is delivered to terminaling facilities located outside the zone, although the agreement recites that it is delivered thereat for accounting purposes only. Aloha Petroleum, Ltd., acts as the Taxpayer's nominee in this State. Aloha actually takes delivery of the gasoline at the terminal located at Iwilei. Similarly, delivery of the products to other distributors involved in exchange agreements with the Taxpayer is made at the terminal outside the Zone. Under the circumstances, the Taxpayer contended all transactions have occurred in the Foreign Trade Zone as a result whereof it has not engaged in business in this State. The Court rejected the argument inasmuch as the gasoline in the terminaling facilities has been delivered thereat consigned to the Taxpayer. Moreover, the transactions giving rise to the assessment have all occurred at the terminaling facilities located outside the Foreign Trade Zone. As nominee of the products accepting delivery on account of the Taxpayer, disposition of the products by the nominee Aloha to dealers must have been made on the Taxpayer's behalf. Should the disposition by Aloha be made in its own right, then there must have been a sale of the product to Aloha at the terminal. The books and records of both the Taxpayer and Aloha show that the Taxpayer has kept an inventory of products in this State and that payment for the products has been made to the Taxpayer as a result of transactions occurring in this State outside the Foreign Trade Zone.

Charles Pankow Associates *Decided on 1/5/81*

The Taxpayer is a foreign corporation licensed to do business in this State. It is a subsidiary of Charles Pankow, Inc., a California corporation, and is part of an affiliated group including Pankow Building Systems, Inc., Pankow Construction Company and C. P. Investments, Inc. Of these affiliates, only C. P.

Investments, Inc. is a domestic corporation incorporated in this State. The Taxpayer is engaged in the general contracting business and derives all of its income from projects located in this State. It does not derive any income from any source located outside this State. Certain administrative and management functions, however, are performed in the State of California. The Taxpayer filed a consolidated corporation income tax return by which it had its income apportioned and allocated under the UDITPA method. The consolidated return was disallowed inasmuch as the Taxpayer, its principal and two of its affiliates are California corporations, thereby not meeting the requirements of HRS Sec., 235-92(2) that for consolidation purposes, all affiliates in the group must be domestic corporations. In addition thereto, the Director properly required a separate accounting in this case because an allocation and apportionment will neither clearly and accurately reflect its taxable income nor will it fairly represent the extent of the Taxpayer's activities in this State. By its apportionment, the Taxpayer would return to this State only 53.6% of its income under circumstances where 100% of the Taxpayer's income has been derived from its business activities in this State.

Kaiser Cement Corporation *Decided on 5/29/81*

The Taxpayer appealed from an assessment of use taxes for the importation of coal used as a fuel in the manufacture of portland cement. The Taxpayer contended that, although the coal is used as a fuel, nevertheless, its residue, coal ash, is mixed with and becomes a component of the cement. Accordingly, it claims the coal has been imported to be incorporated into a finished or saleable product wherein it will remain in such form as to be perceptible to the senses and is thereby properly to be exempt from the use tax within the purview of HRS §238-2(1)(B). Previous to its conversion to a coal burning kiln, the Taxpayer had used oil as a fuel whereon it paid use taxes at the 4% rate. The Court determined the coal has been imported for consumption and use as a fuel as a result whereof the assessment is proper and valid. Moreover, that if the ash residue is deemed to become a component part of the cement, the process of converting the coal to its ash residue occurred within the State and the ash would not be a subject of the use tax. In addition thereto, the ash residue undergoes a chemical change during the manufacturing process and no longer retains its identity as coal ash. Any argument regarding the incorporation of the ash into the cement, the Court held, is irrelevant and immaterial.

LEGISLATION

In its continuing efforts to conform Hawaii's Tax Laws to the Internal Revenue Code, the 1981 State Legislature passed Act 3. With certain exceptions, this Act incorporates the Internal Revenue Code as of December 31, 1980.

Other tax bills enacted are summarized below:

Act

103 General Excise Tax Law: Provides that gross proceeds from the sale of electricity to a public utility company for resale to the public shall be at the rate assessed producers which currently ½ of 1%.

137 Use Tax Law: Provides for filing of the use tax annual return on or before the 20th day of the fourth month following the close of the taxable year.

138 Income Tax Law: Permits an employee to claim excess withholding allowances based upon estimated itemized deductions.

159 General Excise Tax Law: provides that from July 1, 1981 to June 30, 1984, all general excise taxes derived from the retail sale of liquid fuel sold or used for operating vehicles upon the public highways shall be deposited into the State treasury to the credit of the State Highway Fund.

170 General Excise Tax Law: Provides that all returns, return information and investigation reports of general excise tax returns are confidential.

174 Income Tax Law: Provides for State adoption of any federal capital costs recovery or depreciation system for income tax purposes effective as of the federal enactment.

178 Relating to Campaign Spending Law: Eliminates the official receipt forms for substantiation of tax deductions for contributions to political candidates.

179 General Excise Tax Law: Extends the period of exemption from the general excise tax on gasohol from July 1, 1985 to June 30, 1992.

182 Liquor Tax law: Provides an exemption from the liquor tax for the period May 17, 1981 to June 30, 1986, for rum manufactured in the State.

208 Income Tax Law: Amends Section 235-2.3 to provide for zero-bracket method of computing State income tax beginning with calendar year 1982.

209 Income Tax Law: Provides that Internal Revenue Code Section 116 (with respect to dividend and interest exclusion) shall be operative for the State

210 Income Tax Law: Provides an income tax credit to commerical fishermen for fuel taxes paid.

230 Income Tax Law: Increases the present tax credit provided to low-income renters from $20 to $50 per qualified exemption.

231 Income Tax Law: Provides to each resident individual taxpayer, irrespective of gross income, a one-time general income tax credit of $100 multiplied by the number of qualified exemptions.

233 Income Tax Law: Expands Section 235-12, solar energy credit, to include wind energy devices and heat pumps.

234 Income Tax Law: Increases the child care tax credit from the present five percent to ten percent of the employment related expenses paid by such individual during the taxable year.

240 Public Service Company Tax Law: Provides an exemption from the public service company tax imposed to certain carriers by water.

INCOME ASSESSMENT AND AUDIT

INDIVIDUAL INCOME TAX

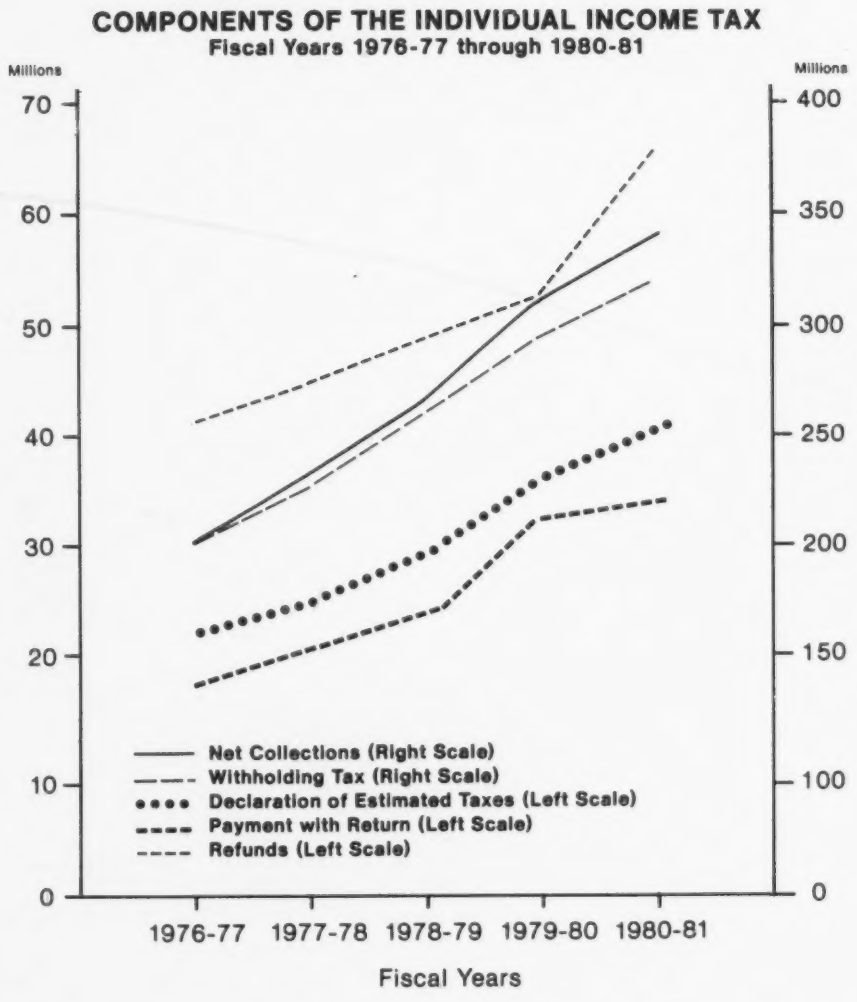
Net income taxes paid by individuals in fiscal 1981 amounted to $334.6 million, an increase of 7.4 percent over the $311.6 million netted last year. At the same time all components of the individual income tax registered substantial gains over the past fiscal year, ranging from 12.3 percent for the declaration of estimated taxes, 4.5 percent for payment with returns, and 11.8 percent for withholding taxes on wages.

TAXES PAID BY INDIVIDUALS
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
	FY 1981	FY1980	1980-81	1976-81
Declaration of Estimated Taxes.....	$ 40,623	$ 36,184	12.3	14.1
Payment with Return	33,585	32,132	4.5	14.0
Withholding Tax on Wages.....	330,812	295,951	11.8	12.4
Sub-total.....	$405,020	$364,267	11.2	12.6
Refunds.....	70,450	52,682	33.7	12.9
NET.....	$334,570	$311,585	7.4	12.6

The number of refunds processed in fiscal 1980 increased 6.3 percent from 320,277 to 340,428 and the amount of refund increased 33.6 percent from $52.7 million to $70.4 million for the 1981 fiscal period. This reflects in the average refund claimed of $206.94 per return as against $164.49 last year.

The tax refunds to individuals rose 33.6 percent, attributable in part to the increase of the "Excise Tax Credit Schedule," which became effective beginning the taxable year 1980. Also, Act 241, of the 1980 regular legislative session amends Section 235-54, HRS, to raise the individual exemption from $750 to $1,000.



CORPORATE INCOME TAX

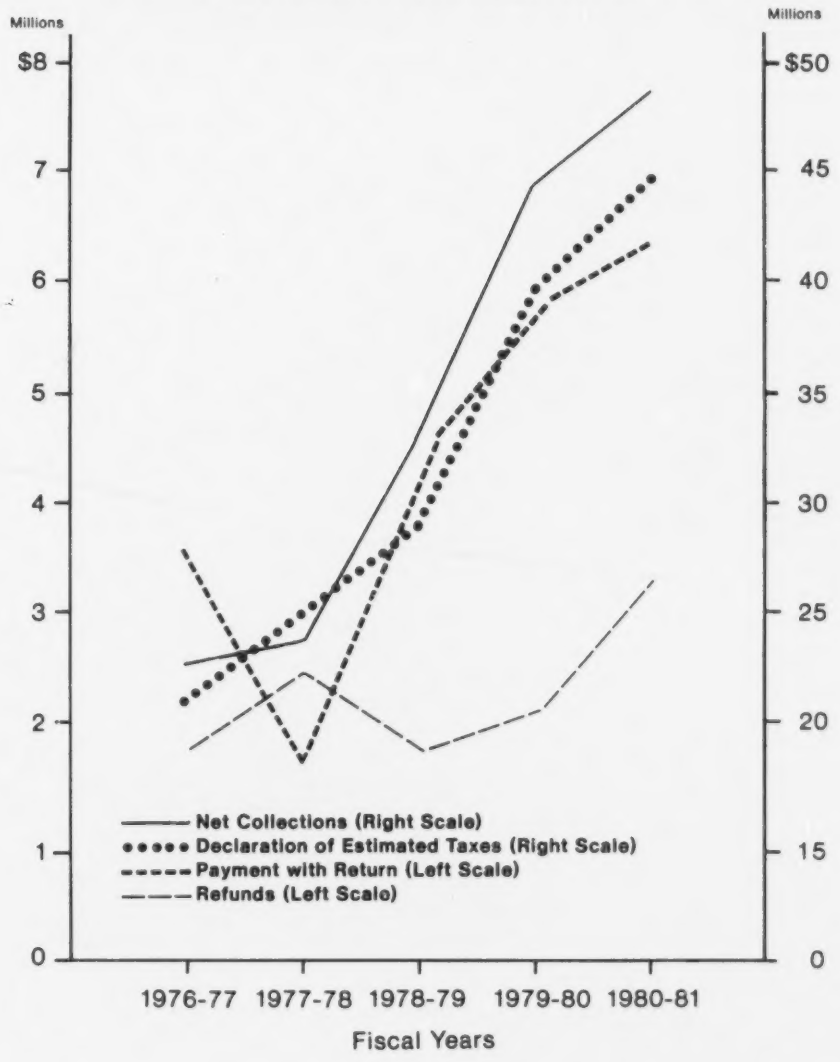
Net income tax revenue from corporations continued its moderate growth of 10.7 percent to $47.0 million compared to $42.4 million a year earlier. Taxes paid on declaration of estimated taxes increased by 12.7 percent; while payment with returns rose 10.5 percent. In contrast, refunds claimed rose a whopping 48.7 percent.

TAXES PAID BY CORPORATIONS
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
	FY 1981	FY 1980	1980-1981	1976-81
Declaration of Estimated Taxes	$43,723	$38,793	12.7	9.9
Payment with Return.....	6,269	5,673	10.5	23.4
Sub-Total	$49,992	$44,466	12.4	10.1
Refunds	3,037	2,042	48.7	14.7
NET.....	$46,955	$42,424	10.7	10.3

COMPONENTS OF THE CORPORATE INCOME TAX

Fiscal Years 1976-77 through 1980-81



GENERAL EXCISE AND USE TAXES

The revenue from general excise and use taxes maintained its position as the largest producer of general fund tax revenues, as revenue from this source accounts for 52.9 percent of the total. This is a slight increase over last year when general excise and use taxes produced 52.6 percent of the total general fund tax revenues.

The breakdown by business activity for fiscal year 1981, 1980, and 1976 is shown in the table on the following page.

GENERAL EXCISE AND USE TAX BASE AND TAXES FOR THE FISCAL YEARS ENDING JUNE 30, 1981, 1980, AND 1976

(In Thousands of Dollars)

SOURCE OF REVENUE	Rate	1981	1980	1976
TAX BASE				
Retailing		$ 6,332,128	$ 5,784,890	$ 3,568,172
Services		1,807,337	1,547,498	939,041
Contracting		1,576,721	1,488,781	1,092,623
Hotel Rentals		733,206	695,927	408,336
All Other Rentals		1,205,036	1,044,699	690,090
All Others (4%)		1,160,318	1,079,661	540,797
Sub-Total		$12,814,746	$11,641,456	$ 7,239,059
Sugar Processing		$ 577,533	$ 371,028	$ 321,549
Pineapple Canning		189,867	180,860	111,042
Producing		165,721	137,237	112,311
Manufacturing		627,607	619,886	410,292
Wholesaling[1]		3,334,433	2,955,889	1,564,193
Use (½%)		2,186,839	2,081,472	1,069,861
All Others (½%)		55,580	67,569	40,813
Insurance Commissions		241,903	249,222	27,857
Sub-Total		$ 7,379,483	$ 6,663,163	$ 3,657,918
TOTAL-ALL ACTIVITIES		$20,194,229	$18,304,619	$10,896,977
TAX				
Retailing	4%	$ 253,285	$ 231,396	$ 142,724
Services	"	72,293	61,900	37,561
Contracting	"	63,069	59,551	43,704
Hotel Rentals	"	29,328	27,837	16,333
All Other Rentals	"	48,201	41,788	27,604
All Others	"	46,414	43,186	21,631
Sub-Total		$ 512,590	$ 465,658	$ 289,557
Sugar Processing	½%	$ 2,888	$ 1,855	$ 1,608
Pineapple Canning	"	949	904	555
Producing	"	829	686	562
Manufacturing	"	3,138	3,100	2,052
Wholesaling[1]	"	16,672	14,780	7,821
Use	"	10,934	10,407	5,349
All Others	"	278	338	203
Insurance Commissions	.15%	363	374	557
Sub-Total		$ 36,051	$ 32,444	$ 18,707
TOTAL-ALL ACTIVITIES		$ 548,641	$ 498,102	$ 308,264
Adjustments		29	—	19
Penalty & Interest		302	191	1,332
GRAND TOTAL		$ 548,914	$ 498,293	$ 309,615

[1] *For fiscal 1981, blind, deaf and disabled (BDD) category was combined with wholesaling. Fiscal years 1980 and 1976 BDD was included in All Others.*

INHERITANCE AND ESTATE TAXES

Although the number of estates settled in fiscal 1981 increased by 6.3 percent to 9,536, the number of taxable estates dropped by 44 accounts to 1,057 compared to 1,101 a year earlier. However, reflecting the increasing values of estates, the amount of inheritance taxes paid by beneficiaries grew 6.2 percent to $4.5 million for the year.

The estate tax, which is the difference between the maximum federal state death tax credit and the amount of state inheritance tax paid, increased by 5.7 percent to $74.0 thousand compared to $70.0 thousand for the fiscal period ended in 1981. The following table summarized statistics concerning the inheritance and estate taxes.

INHERITANCE AND ESTATE TAXES
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
	FY-1981	FY-1980	1980-81	1976-81
Inheritance Tax	$4,480	$4,218	6.2	9.2
Estate Tax	74	70	5.7	17.3
Sub-total	$4,554	$4,288	6.2	7.6
Penalty and Interest	35	40	(12.5)	(1.3)
TOTAL	$4,589	$4,328	6.0	7.5

PUBLIC SERVICE COMPANY TAX

Tax yield from this source totaled $50.2 million in fiscal 1981 as compared to $32.5 million a year ago, an increase of 54.5 percent. Revenue from public utilities showed a substantial gain by 69.8 percent to $38.6 million, while motor carriers and contract carriers increased by 18.7 percent to $11.4 million over the previous year. Since payments made by the airlines are recorded in escrow pending the appeal in the State Supreme court, a comparison of the two fiscal years would not be valid.

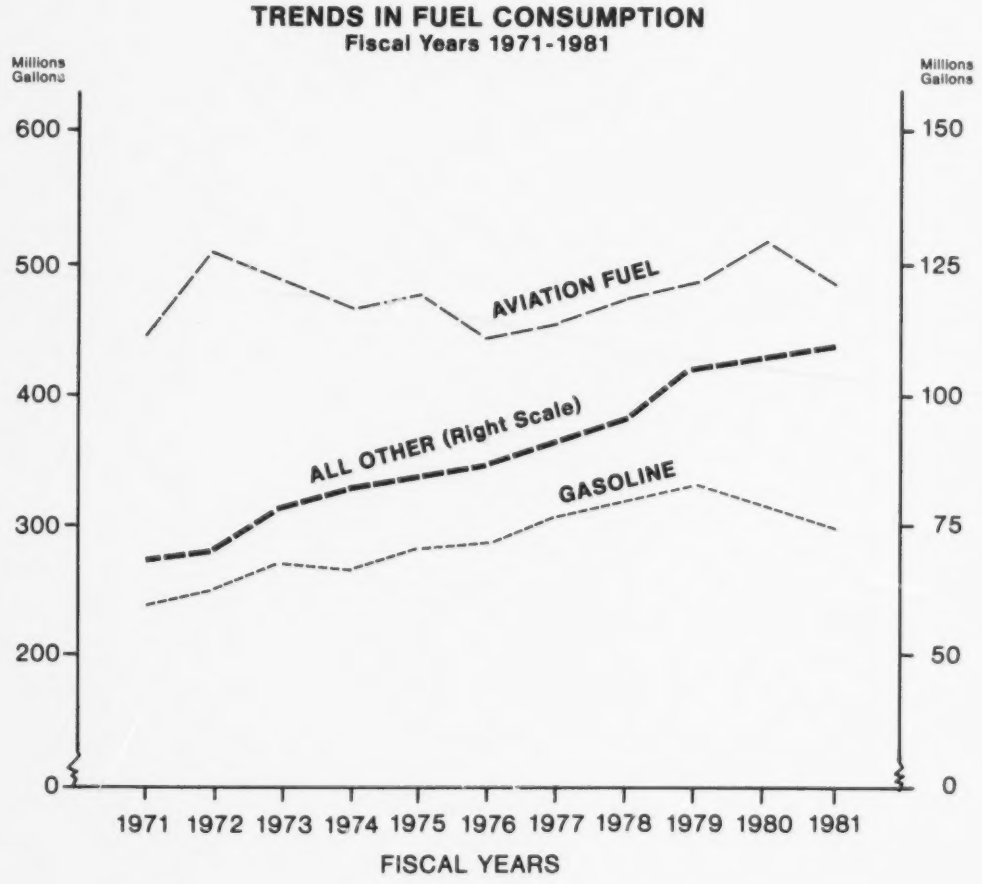
PUBLIC SERVICE COMPANY TAX
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
	FY 1981	FY 1980	1980-81	1976-81
Public Utilities	$38,633	$22,751	69.8	16.4
MC & CC	11,390	9,597	18.7	15.9
Airlines	—	51	—	(31.7)
SUB-TOTAL	$50,023	$32,399	54.4	13.6
Penalty & Interest	127	59	115.3	29.6
TOTAL	$50,150	$32,458	54.5	13.6

FUEL TAXES

Statewide gasoline consumption dropped 3.2 percent to 307.6 million gallons in contrast to 317.8 million gallons for fiscal 1980. County of Hawaii's consumption showed a slight gain of 0.5 percent to 38.8 million gallons over fiscal year 1980, while Oahu showed a decline of 4.0 percent, followed by Maui and Kauai, with a drop of 2.7 percent and 1.5 percent, respectively.

In contrast to gasoline, statewide diesel oil consumption for highway use increased by only 5.1 percent to 17.6 million gallons. The counties of Maui and Oahu reported a healthy growth rate of 10.5 percent and 10.9 percent, respectively, over the previous year. County of Hawaii showed a drop of 20.2 percent over the same period a year ago. On the other hand, the County of Kauai registered a decline of 0.9 percent.



Tax revenue accruing to the county highway funds from the fuel tax for the City and County of Honolulu realized a gain of 27.1 percent. All other counties showed a decline, Maui with a drop of 2.4 percent, Hawaii with a decrease of 0.9 percent, and Kauai with a decline of 1.6 percent.

GALLONS OF FUEL CONSUMED
(In Thousands of Gallons)

	FY 1981	FY 1980	Av. Annual Change (Percent) 1980-81	1976-81
Gasoline	307,645	317,754	(3.2)	1.5
Diesel Oil – Non-Highway	109,105	107,063	1.9	7.0
Diesel Oil – Highway	17,553	16,705	5.1	6.2
Liq. Petro. Gas – Off Highway	2,515	2,238	12.4	5.9
Liq. Petro. Gas – Highway	1,184	1,112	6.5	(0.8)
Small Boats – Gasoline	398	362	9.9	3.0
Small Boats – Diesel Oil	1,517	891	70.3	13.5
Aviation Fuel	479,619	520,205	(7.8)	1.4
TOTAL	919,536	966,330	(4.8)	2.1

The State highway fund realized a decrease of 2.0 percent, while revenue accruing to airport fund from the aviation fuel dropped 7.8 percent. Since the boating special fund receives three-fourths of one percent of all fuel taxes collected, except aviation fuel tax, realized a gain of 5.2 percent.

ALLOCATION OF FUEL TAXES
(In Thousands of Dollars)

	FY 1981	FY 1980	Difference
STATE HIGHWAY FUND:			
Gasoline	$25,826	$26,663	$ (837)
Diesel Oil – Non-Highway Use	1,098	1,072	26
Diesel Oil – Highway Use	1,481	1,409	72
Liq. Petro. Gas – Off Highway Use	25	22	3
Liq. Petro. Gas – Highway Use	70	66	4
SUB-TOTAL	$28,500	$29,232	$ (732)
Motor Vehicle Weight Tax/Reg. Fees	8,373	8,380	(7)
TOTAL	$36,873	$37,612	$ (739)
COUNTY HIGHWAY FUNDS:			
City & County of Honolulu	$15,248	$11,998	$3,250
County of Maui	1,583	1,622	(39)
County of Hawaii	2,012	2,031	(19)
County of Kauai	612	622	(10)
TOTAL	$19,455	$16,273	$3,182
BOATING SPECIAL FUND	$ 362	$ 344	$ 18
STATE AIRPORT FUND:			
Aviation Fuel	$ 4,796	$ 5,202	$ (406)

OTHER TAXES

A sharp decline in taxes on liquor and permits of 46.2 percent to $7.0 million compared to $12.9 million a year earlier. Revenues from the conveyance tax dropped by 12.3 percent in real estate transaction during the past year. Also down by 26.1 percent in taxes paid by banks and other financial corporations. Employment security contributions, which are collected for the Department of Labor and Industrial Relations dropped by 13.0 percent.

Showing gains were taxes on insurance premiums, 7.8 percent and tobacco and licenses increased by 8.2 percent. The breakdown of these taxes are shown below:

MISCELLANEOUS TAXES
(In Thousands of Dollars)

TYPE OF TAX	FY 1981	FY 1980	Av. Annual Change (Percent) 1980-81	1976-81
Banks & Other Financial Corp.	$ 5,790	$ 7,836	(26.1)	25.1
Conveyance	1,990	2,269	(12.3)	21.3
Empl. Security Contributions	58,755	67,535	(13.0)	4.9
Insurance Premiums	23,973	22,240	7.8	9.3
Liquor & Permits	6,964	12,948	(46.2)	8.4
Tobacco & Licenses	13,799	12,759	8.2	7.6
All Other	371	388	(4.4)	4.7
SUB-TOTAL	$111,642	$125,975	(11.4)	7.3
Motor Vehicle Weight/Reg. Fees	8,373	8,381	(0.1)	—
TOTAL	$120,015	$134,356	(10.7)	4.6

COMPLIANCE

The Department's continuing assignment of field auditors to special projects reflect the same number of audits for the past two fiscal years. The 1981 fiscal year shows a drop of 65.6 percent in the amount of assessments. This was due to the fact that there were exceptionally large assessments made in 1979 and 1980.

Even with the assignment of personnel to various projects, the number of office audits increased by 17.5 percent. With the implementation of the new GEW System and the on-line computer terminals, the amount of office assessments increased by $5.8 million in fiscal year 1981.

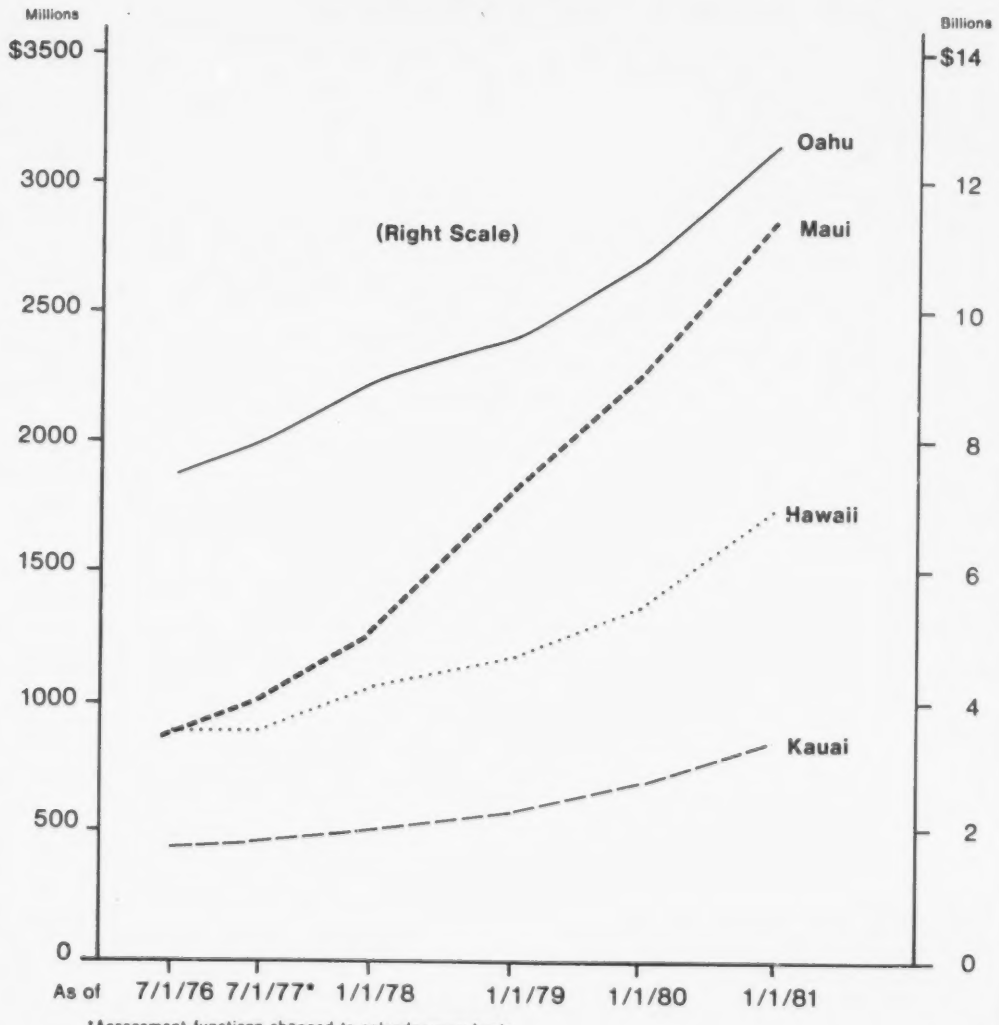
	FY 1981	FY 1980	FY 1979
Number of Field Audits	971	973	1,157
Amount of Assessments (Millions)	$6.6	$19.2	$16.2
Number of Office Audits	470,097	400,104	359,588
Amount of Assessments (Millions)	$18.7	$12.9	$12.9

REAL PROPERTY ASSESSMENT

NET ASSESSED VALUATION

The statewide real property net assessed as of January 1, 1980 increased by 14.9 percent to $14.8 billion. County of Maui registered the biggest gain of 25.3 percent, followed by Kauai with a gain of 20.3 percent; Hawaii, 14.9 percent; and the City and County of Honolulu, 12.6 percent. The following graph shows the trend in real property net assessed values.

TRENDS IN REAL PROPERTY NET ASSESSED VALUES FOR EACH COUNTY, 1976-1981



*Assessment functions changed to calendar year basis.

The net assessed valuation as of January 1, 1981 is the basis for county budget plans for fiscal 1982. On a statewide basis, net assessed values rose 20.9 percent to $17,933.7 million over the previous year. County of Kauai showed the largest increase of 31.9 percent; followed by Maui with a gain of 30.0 percent; Hawaii, 27.1 percent; and the City and County of Honolulu, 17.5 percent.

The following table shows the real property tax collections for the past two years for each of the four counties.

REAL PROPERTY TAX COLLECTIONS
(In Thousands of Dollars)

COUNTY	FY 1981	FY 1980	Av. Annual Change (Percent) 1980-81	1976-81
C & C of Honolulu	$166,301	$145,002	14.7	7.4
Maui	16,662	11,627	43.3	8.2
Hawaii	24,798	21,603	14.8	6.2
Kauai	9,496	7,977	19.0	10.0
STATE	$217,257	$186,209	16.7	7.4

HOME EXEMPTIONS

The number of home exemptions claimed for fiscal 1980-81 increased by 3.5 percent to 137,464. Of this total, 38,439 multiple home exemptions claimed rose by 5.9 percent. Although those age 60-69 are eligible to claim an additional $12,000 and those age 70 and over $18,000, the average claimed by these claimants were $11,868 and $15,242, respectively. Trends in building and land values of homes qualifying for the home exemptions are shown in the tabulation below.

HOME EXEMPTIONS
(In Millions of Dollars)

FEE	FY 1981	FY 1980	Av. Annual Change (Percent) 1980-81	1976-81
Number	100,478	96,273	4.4	3.3
Land & Building Values	$ 4,982.5	$ 4,360.7	14.3	8.9
Amount of Exemptions	1,642.9	1,551.0	5.9	14.4
NET ASSESSED VALUE	$3,339.6	$2,809.7	18.9	8.0
LEASEHOLD				
Number	36,986	36,540	1.2	3.9
Land & Building Values	$1,959.3	$1,793.1	9.3	6.5
Amount of Exemptions	531.1	518.0	2.5	14.4
NET ASSESSED VALUE	$1,428.2	$1,275.1	12.0	5.1

NUMBER OF PARCELS

The number of parcels throughout the State increased from 352,430 in fiscal 1979-80 to 369,414, up 4.8 percent. The tabulation below shows a comparative breakdown of the number of parcels in each county.

County	FY 1981	FY 1980	Percent Increase or Decrease*
C & C of Honolulu	192,755	177,818	8.4
County of Maui	41,570	38,336	8.4
County of Hawaii	114,817[1]	119,049	3.5*
County of Kauai	20,272	17,227	17.7
STATE	369,414	352,430	4.8

[1]Appears reports for last few years erroneously high.

COLLECTION AND ACCOUNTING OF TAXES

TAX COLLECTIONS

The total taxes collected by various agencies of the State and County governments amounted to $1,375.6 million. Of this amount, $1,341.2 million was collected by the Department of Taxation. The Department of Regulatory Agencies collected $24.0 million in insurance premium tax, while $2.0 million in conveyance tax was collected by the Department of Land and Natural Resources. The State motor vehicle weight tax of $8.4 million was collected by the counties and turned over to the Department of Budget and Finance.

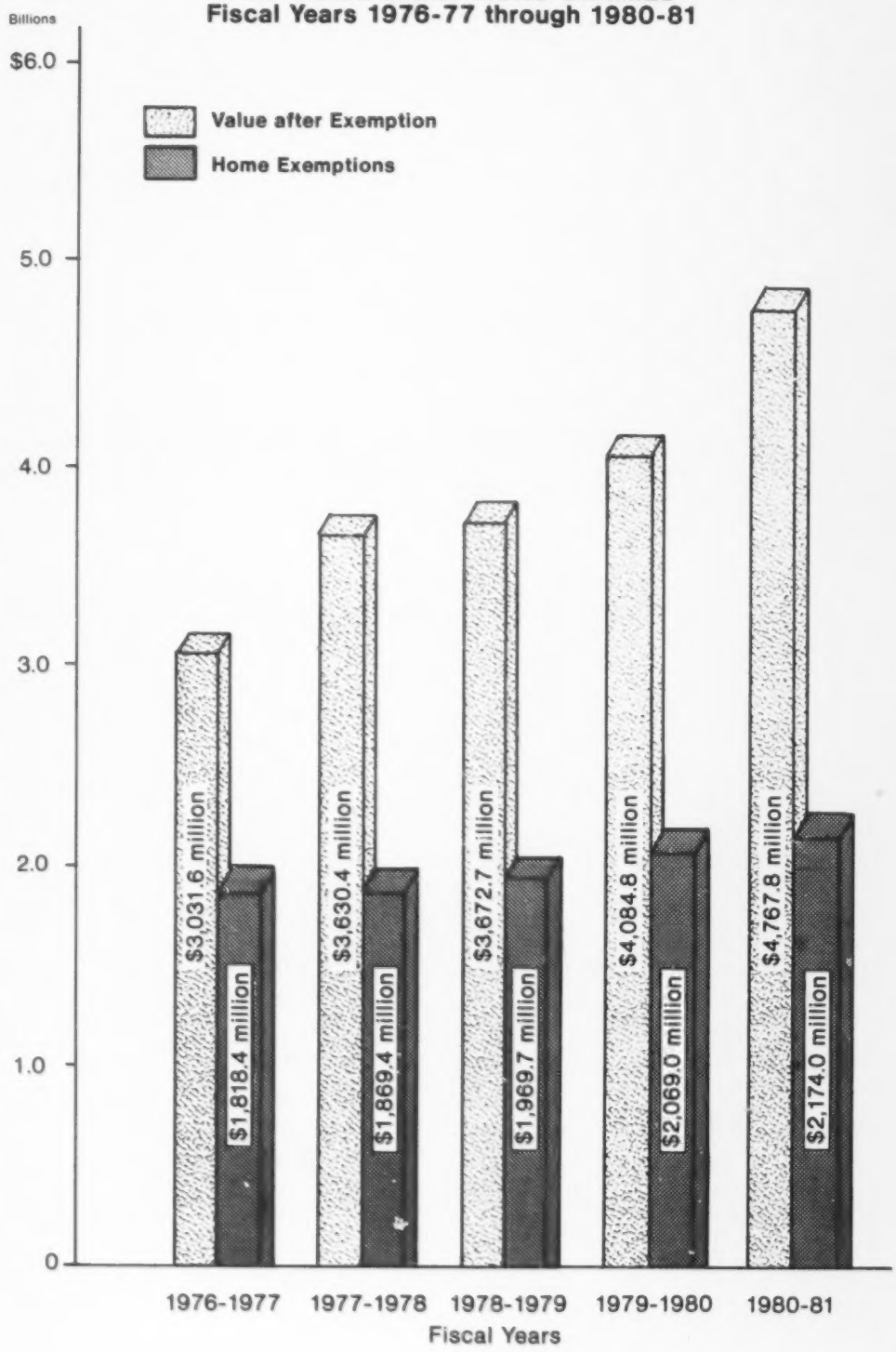
DISTRIBUTION OF COLLECTIONS

	FY 1981		FY 1980	
	Amount Collected	% of Total	Amount Collected	% of Total
State General Fund	$1,037,914,371	75.5	$ 947,346,477	75.1
State Special Funds	100,937,675	7.3	110,874,534	8.8
County Funds	236,711,675	17.2	202,482,422	16.1
TOTAL	$1,375,563,721	100.0	$1,260,703,433	100.0

The State general fund's share of the total taxes collected amounted to $1,037.9 million, or 75.5 percent of the total, while the counties received $236.7 million, or 17.2 percent. The remaining 7.3 percent accrued to State special funde, which include the highway, airport, boating, unemployment trust and election campaign funds.

CHART 1

VALUES AFTER EXEMPTION OF RESIDENTIAL PROPERTIES AND HOME EXEMPTIONS CLAIMED
Fiscal Years 1976-77 through 1980-81



Shown below is a comparative summary of taxes collected by the Department in each district in fiscal 1981 and 1980. Not included are the conveyances, insurance premium, and motor vehicle weight taxes, which are collected by other State agencies.

TAX COLLECTIONS
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
OAHU	**FY 1981**	**FY 1980**	**1980-81**	**1976-81**
Gross Collections*	$1,233,758	$1,114,258	10.7	10.1
Less Appeals, Payments under Protest, Refunds, TDI	82,313	60,022	37.1	13.2
Net Collection by Department	$1,151,445	$1,054,236	9.2	9.9
MAUI				
Gross Collections*	$ 82,290	$ 72,226	13.9	13.7
Less Appeals, Payments under Protest, Refunds, TDI	8,579	5,901	45.4	26.2
Net Collection by Department	$ 73,711	$ 66,325	11.1	12.8
HAWAII				
Gross Collections*	$ 90,791	$ 82,125	10.6	10.2
Less Appeals, Payments under Protest, Refunds, TDI	10,247	6,715	52.6	24.5
Net Collection by Department	$ 80,544	$ 75,410	6.8	9.1
KAUAI				
Gross Collections*	$ 38,234	$ 34,222	11.7	12.0
Less Appeals, Payments under Protest, Refunds, TDI	2,706	2,379	13.7	15.8
Net Collection by Department	$ 35,528	$ 31,843	11.6	12.1

**Excludes conveyance, insurance premium, and motor vehicle weight taxes.*

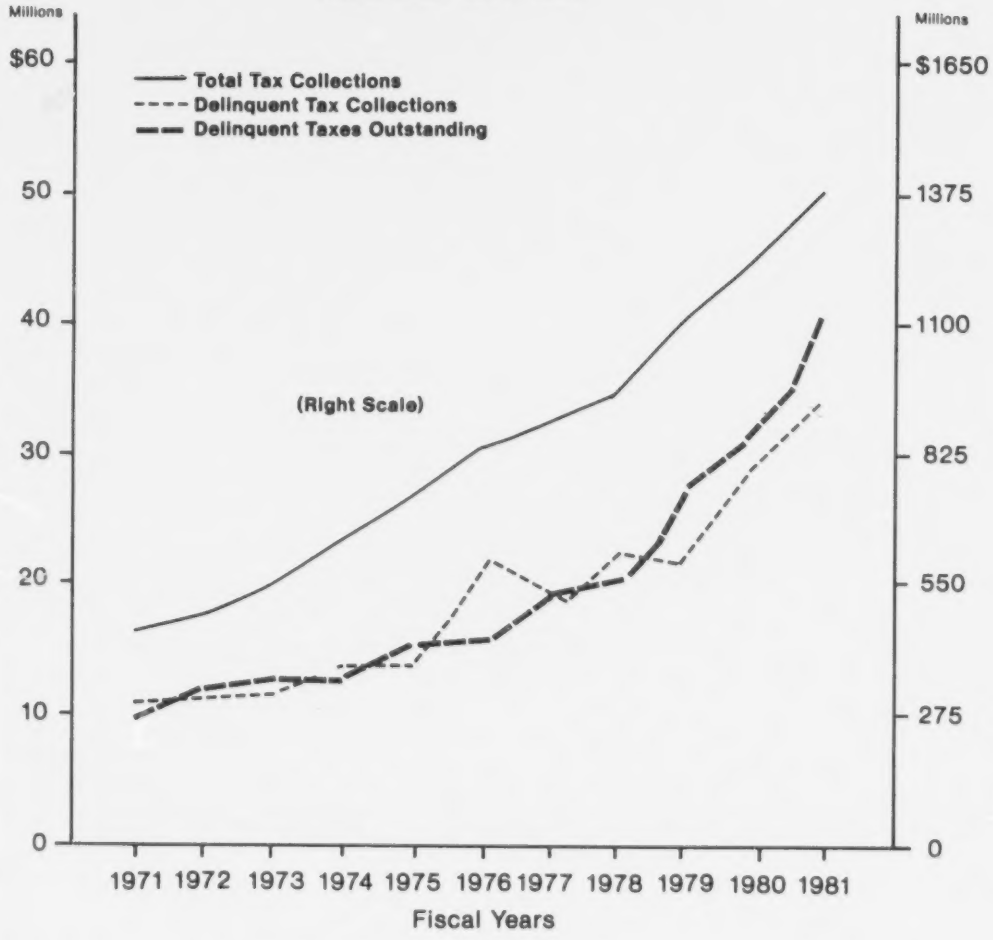
DELINQUENT TAXES

The number of new referrals of delinquent accounts in fiscal 1981 compared to fiscal 1980 increased 8.9 percent to 38,093. Also, the outstanding delinquent taxes increased over 20.7 percent from $34.8 million to $42.0 million during fiscal year 1981. During the same period, the ending balance of outstanding delinquent accounts jumped 27.6 percent from 29,000 accounts to over 37,000 accounts.

The following graph compares delinquent tax collections, delinquent taxes outstanding and total tax collections since the 1971 fiscal year.

COMPARISON OF DELINQUENT TAX COLLECTIONS AND DELINQUENT TAXES OUTSTANDING WITH TOTAL TAX COLLECTIONS

Fiscal Years 1971-1981



COST OF ADMINISTRATION

The total taxes collected and administered by the Department amounted to $1.3 billion. This total excludes the conveyance and insurance premium taxes, which are collected by the Department of Land and Natural Resources and the Department of Regulatory Agencies, respectively. Also excluded are the motor vehicle weight tax and the registration fee, which are collected by the County agencies; and the employment security tax, which although collected by the Department, is administered by the Department of Labor and Industrial Relations.

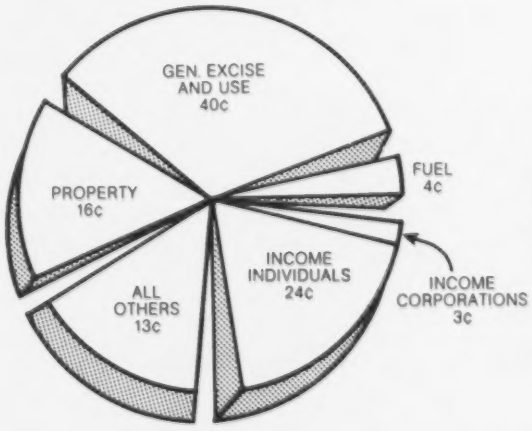
Although the department's operating expenditures of $9.5 million in fiscal 1981 was 17.6 percent more than the $8.0 million spent in fiscal 1980, the Department's cost of administering the tax laws was $0.74 per $100 of taxes collected. In contrast, the cost of administration in fiscal 1980 was $0.69 per $100 of net taxes collected.

BRIEF SUMMARY OF HAWAII'S TAX SYSTEM

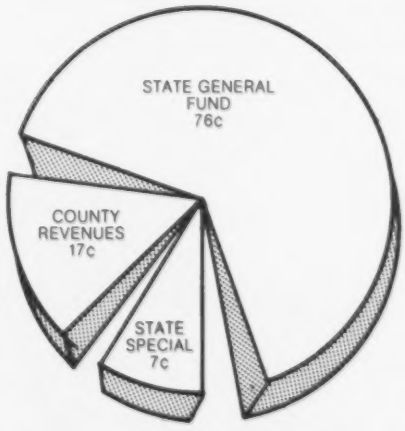
The outstanding characteristics of Hawaii's tax structure are the high degree of centralization at the state level of government and the comprehensive utilization of revenue sources. Although relying heavily on the general excise tax, the overall structure has been made progressive through the effective use of the graduated individual income tax and of income tax credits. These credits have been in existence since 1965 in one form or another to provide relief to low-income taxpayers from the ever-increasing tax burden. Over the years, changes were made to simplify both the filing process and the administration of the tax credits. Under the present law, there is an excise tax credit which may be claimed by resident taxpayers with adjusted gross income under $20,000, if they are not eligible to be claimed as a dependent by another taxpayer. Beginning in taxable year 1980, this credit ranges from $48 per qualified exemption for those with adjusted gross income under $5,000 to $8 for those with adjusted gross income of $14,000-$19,999, with a double credit allowed for those age 65 and over. In addition, there are other tax credits which may be claimed by eligible taxpayers - renter's credit, child care credit, solar devise credit, heater insulation credit, and fuel tax credit for commercial fishers.

Hawaii has fifteen separate tax laws of which thirteen are administered by the State. The remaining two are administered by the counties. Revenues from ten of these taxes are realizations to the state general fund used to provide government services, including the educational system which is a state function in Hawaii. Although the fuel tax is administered by the state, it is a source of revenue for both state and county governments. The real property tax law is also administered by the state, but the revenue from this source accrues to the counties, except for that portion which is retained by the state for the cost of administering the real property tax law. On July 1, 1981, the counties will administer the real property tax law. The employment security tax is a dedicated tax, used exclusively to provide benefits to unemployed workers. Administration of the state and county motor vehicle weight taxes is vested in the counties with the revenue accruing to the state and county highway funds.

SOURCE OF THE TAX DOLLAR 1980-1981



DISTRIBUTION OF THE TAX DOLLAR 1980-1981



STATE GENERAL FUND

GENERAL EXCISE TAX: The general excise tax is a tax on the privilege of doing business in the state as measured by the gross proceeds of business transactions. Hawaii is one of the few states having a gross receipts tax. This tax applies, with few exceptions, to all levels of business activities, including not only the consumer level, but also the producing, manufacturing, and wholesaling activities. The significant difference between Hawaii's general excise tax as compared to a sales tax is that the incidence of the tax is on the seller rather than on the purchaser. This tax applies to receipts from the sale of tangible personal property, services performed, and income from the investment of business capital, in such forms as interest, rentals, royalties, fees, etc.

The consumer level rate is 4%; with the rate on producing, manfacturing, and wholesaling at 1/2 of 1%. Insurance solicitors and agents have a preferential rate of .15%.

USE TAX: Under the use tax law, an excise tax is levied on the import or purchase of tangible personal property from an unlicensed seller for use or for resale at retail in the state. If the import is for resale, it carries the wholesaling rate of 1/2 of 1%; otherwise, the rate is 4%, the same as for retailing.

INCOME TAXES: The Income Tax Law of 1957 adopted, with certain exceptions, the provisions of the Internal Revenue Code in the determination of gross income, adjusted gross income, and taxable income. Some of the significant exceptions applicable under Hawaii's law are: 1) taxation of cost-of-living allowances received by federal employees in Hawaii; 2) exclusion of pension income; 3) allowance of $7,000 personal exemption for persons who are blind, deaf, or totally disabled; and 4) disallowance of the $100 dividend exclusion allowed by the federal. The applicable tax rates are covered in the "Outline of Hawaii Tax System" in the Appendix of this report.

INHERITANCE AND ESTATE TAXES: These are taxes on the transfer of property at the time of death. In determining the amount of inheritance tax, the law provides certain exemptions and rates, depending on the relationship of beneficiary to the decedent. The 1977 State Legislature liberalized the exemptions and modified the tax rates, effective for estates of those dying after December 31, 1977. The exemption for a spouse was increased from $20,000 to $100,000; for a direct line beneficiary from $5,000 to $50,000; and for all other beneficiaries from $500 to $5,000. In addition to the inheritance tax, Hawaii also has an estate tax which is a residual tax and picks up the difference, if any, between the maximum credit allowed under the federal estate tax law and the amount of the state inheritance tax.

LIQUOR AND TOBACCO TAXES: These are ad valorem taxes on the wholesale value of liquor and tobacco products. This is quite different from the usual practice on the mainland where liquor is taxed on a gallonage basis with rates depending on the alcoholic content and where cigarettes are taxed on the basis of the number in the pack. Hawaii taxes all tobacco products at a rate of 40% of the wholesale value and liquor at 20% of the wholesale value.

PUBLIC SERVICE COMPANY TAX: This is a tax on public utility business in lieu of general excise and real property taxes. Gross income from passenger fares for transportation between points on a scheduled route by a carrier of passengers is taxed at 5.35%. The rate on all other public utility gross income is based on the ratio of net to gross income. If this ratio is 15% or less, the rate is 5.885%, increasing by .2675% for each 1% increase in ratio of net to gross. The rate for airlines, motor carrier and contract carrier business is 4% of gross income. However, airlines may pay at the rate of

3% if they adopt a fare schedule that is less than one-half of the regular adult fare for students in grades 12 or below traveling in school groups.

BANKS AND OTHER FINANCIAL INSTITUTIONS: A franchise tax in lieu of all other taxes, except real property, is imposed on both national and state banks, building and loan companies, industrial loan companies, and small business investment companies. The tax rate is 11.7% of taxable income measured by net income for the preceding year.

INSURANCE PREMIUM TAX: This is a tax on insurance companies based on premiums received in Hawaii and is in lieu of all taxes, except real property and taxes on the purchase, use or ownership of tangible personal property. This law is administered and the tax collected by the Insurance Commissioner, who is required to report to the Director of Taxation all amounts of taxes collected. The rates are: life insurane — domestic, 1.918% and foreign, 3.197%; surplus lines, 4.68%; ocean marine, .8775% of 1%; and other insurance — domestic, 2.9647% and foreign, 4.2824%. These rates are applicable to all premiums and gross underwriting profits received during calendar 1979 and thereafter.

CONVEYANCE TAX: This tax is imposed, with certain exceptions, on all deeds, leases, subleases, assignments of lease, agreements of sale, instruments, writings, or other document transferring ownership or interest in any land, tenement, or other realty. The rate of tax is 5¢ on each $100 of actual and full consideration paid with a minimum tax of one dollar on each taxable transaction. The purpose of this law is to acquire selling price data to determine market value which is needed to achieve uniformity in real property tax assessment.

Chart 2 shows the trend in general fund revenues for the past ten years.

COUNTY GENERAL FUND

REAL PROPERTY: The state is responsible for the appraisal of all real property and the collection of the tax. The Director of Taxation establishes the net assessed valuation for tax rate purposes annually for each county and at the same time certifies the tax rate for each category of real property which would produce an amount of real property tax revenue equal to the amount for the current year. However, the County Council may increase or decrease the tax rates, after holding hearings and adopting a resolution fixing the tax rates. All revenue collected by the state is turned over to the respective county government, except for that portion which is retained by the state for the cost of assessing and collecting the taxes the preceding year. ALL OF THE REAL PROPERTY FUNCTIONS WILL BE TURNED OVER TO THE COUNTIES BEGINNING JULY 1, 1981, AS MANDATED BY THE 1978 CONSTITUTIONAL CONVENTION.

Real property owned by the federal government and by the state and county governments is fully exempt from this tax, as is property owned by public utilities. A minimum tax of $7 is applicable for all other exempt properties. Homeowners are also entitled to claim an exemption of $12,000 on real property owned and occupied as a home. Homeowners age 60-69 may claim a multiple exemption of $24,000, while those 70 and over are eligible to claim up to $30,000.

There are seven land use classes: Improved residential, hotel/apartment, commercial, industrial, agricultural, conservation, and unimproved residential. The law requires separate assessments and rates for land and improvement within each class, except the improved residential, agricultural, and conservation classes, where land and improvements are taxed at the same rate. This provision of the law was amended by

the 1977 Legislature, providing for the gradual phasing out of the differential tax rates so that by 1980 all land and improvements will be subject to the same tax rate. This single tax rate is applicable for fiscal 1980-81.

OTHER TAXES: The counties assess and collect the motor vehicle weight tax and the public utility franchise tax. In addition, they are authorized to levy certain local licenses and permit fees.

SPECIAL PURPOSE TAXES

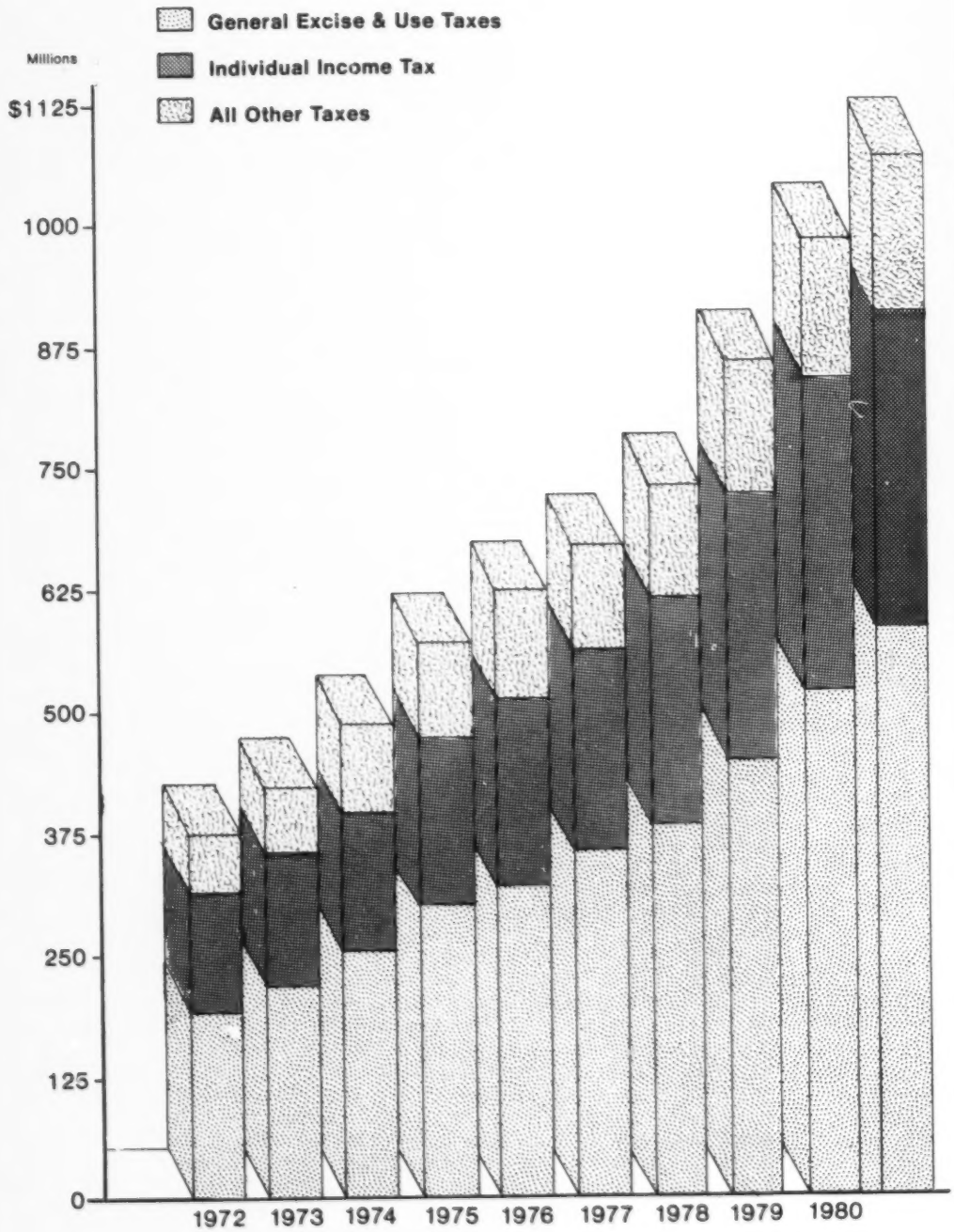
FUEL TAX: The fuel tax is administered and collected by the state, but it is a source of revenue for both state and county governments. The county tax rates on each gallon of gasoline and diesel oil used on the highways are set by the Council of each county. Fuel rates are established by the State Legislature. Revenue from this source goes into state and county special funds for use in the construction and maintenance of highways, roads, and airports.

The county rates on gasoline and diesel oil used on the highways which were in effect for this year are: 6-1/2¢ for the City and County of Honolulu, 5¢ for the County of Maui, 5¢ for the County of Hawaii, and 4¢ for the County of Kauai. The state rate is 8-1/2¢ for all gasoline usages and diesel oil used on the highways, and 1¢ for diesel and liquefied petroleum gas used off highways. The aviation fuel tax rate is 1¢ per gallon. To encourage the use of liquefied petroleum gas for anti-pollution purposes, the fuel tax on liquefied petroleum gas used on the public highways was reduced to two-thirds of the rates applicable to diesel oil used on the highways for both state and county purposes.

HAWAII EMPLOYMENT SECURITY TAX: The proceeds from this tax go into the unemployment insurance trust fund for the payment of benefits to unemployed workers while they are seeking new jobs. This is a tax on employers and is measured by wages and salaries paid. For calendar year 1980, a variable tax rate ranging from 1.0% to 4.5% based on the employer's past employment record was in effect. For calendar 1980, the minimum rate was reduced to .6%. This law is administered by the Department of Labor and Industrial Relations, but the tax is payable to the Director of Taxation.

CHART 2

TRENDS IN GENERAL FUND TAX REVENUE, BY SOURCE
Fiscal Years 1972 through 1981



APPENDIX

Statistical Tables

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TAX COLLECTIONS

Source of Revenue	FISCAL YEARS 1981 Amount Collected	1981 % of Total	1980 Amount Collected	1980 % of Total
Banks — Financial Corporations	$ 5,789,705	.42	$ 7,835,771	.62
Conveyance	1,990,331	.15	2,268,750	.18
Employment Security Contributions	58,754,843	4.27	67,535,526	5.36
Fuel	53,114,030	3.86	51,050,763	4.05
General Excise and Use	548,914,316	39.91	498,292,775	39.53
Income — Corporations	46,955,151	3.41	42,423,522	3.37
Income — Individuals	334,569,662	24.32	311,584,528	24.71
Inheritance and Estate	4,588,542	.33	4,327,864	.34
Insurance Premiums	23,973,114	1.74	22,240,367	1.76
Liquor and Permits	6,963,872	.51	12,948,415	1.03
Motor Vehicle Weight/Registration Fees	8,373,079	.61	8,380,699	.66
Public Service Companies	50,150,497	3.65	32,458,108	2.58
Real Property	217,256,619	15.79	186,209,287	14.77
Tobacco and Licenses	13,799,006	1.00	12,759,365	1.01
All Others	370,954	.03	387,693	.03
TOTAL	$1,375,563,721	100.00	$1,260,703,433	100.00

DISTRIBUTION OF COLLECTIONS

STATE FUNDS:				
State General	$1,037,914,371	75.45	$ 947,346,477	75.15
State Highway	36,873,472	2.68	37,612,407	2.98
State Airport	4,796,196	.35	5,202,054	.41
Boating Special Fund	362,384	.03	343,865	.03
Unemployment Trust	58,754,843	4.27	67,535,526	5.36
Election Campaign Fund	150,780	.01	180,682	.01
SUB-TOTAL — STATE	$1,138,852,046	82.79	$1,058,221,011	83.94
COUNTY REVENUES:				
Property	$ 217,256,619	15.79	$ 186,209,287	14.77
Fuel	19,455,056	1.42	16,273,135	1.29
SUB-TOTAL — COUNTIES	$ 236,711,675	17.21	$ 202,482,422	16.06
TOTAL	$1,375,563,721	100.00	$1,260,703,433	100.00

STATE GENERAL FUND

Source of Revenue	FISCAL YEARS 1981 Amount Collected	1981 % of Total	1980 Amount Collected	1980 % of Total
Banks — Financial Corporations	$ 5,789,705	.56	$ 7,835,771	.83
Conveyance	1,990,331	.19	2,268,750	.24
General Excise and Use	548,914,316	52.89	498,292,775	52.60
Income — Corporations	46,955,151	4.52	42,423,522	4.48
Income — Individuals	334,418,882	32.22	311,403,846	32.87
Inheritance and Estate	4,588,542	.44	4,327,864	.46
Insurance Premiums	23,973,114	2.31	22,240,367	2.34
Liquor and Permits	6,963,872	.67	12,948,415	1.37
Public Service Companies	50,150,497	4.83	32,458,108	3.43
Tobacco and Licenses	13,799,006	1.33	12,759,365	1.34
All Others	370,955	.04	387,694	.04
TOTAL	$1,037,914,371	100.0	$947,346,477	100.0

STATE HIGHWAY FUND

Gasoline	$25,826,169	70.04	$26,662,575	70.89
Diesel Oil — Non-Highway Use	1,097,919	2.98	1,071,437	2.85
Diesel Oil — Highway Use	1,480,853	4.01	1,409,241	3.74
Liq. Pet. Gas — Off Highway	24,963	.07	22,207	.06
Liq. Pet. Gas — Highway Use	70,489	.19	66,248	.18
Motor Vehicle Weight Tax/Reg. Fees	8,373,079	22.71	8,380,699	22.28
TOTAL	$36,873,472	100.0	$37,612,407	100.0

STATE AIRPORT FUND

Aviation Fuel	$ 4,796,196	$5,202,054

BOATING SPECIAL FUND

Fuel Used in Small Boats	$ 362,384	$ 343,865

UNEMPLOYMENT TRUST FUND

Tax on Payrolls	$58,754,843	$67,535,526

ELECTION CAMPAIGN FUND

Political Campaign Contribution	$ 150,780	$ 180,682

COUNTY TAX REVENUES COLLECTED BY STATE

Source of Revenue	FISCAL YEARS 1981	1980	Difference	Percent Change
CITY & COUNTY OF HONOLULU:				
Property	$166,301,144	$145,002,528	$21,298,616	14.7
Fuel	15,248,109	11,998,346	3,249,763	27.1
Sub-Total	$181,549,253	$157,000,874	$24,548,379	15.6
COUNTY OF MAUI:				
Property	$ 16,661,599	$ 11,626,644	$ 5,034,955	43.3
Fuel	1,583,371	1,622,445	(39,074)	(2.4)
Sub-Total	$ 18,244,970	$ 13,249,089	$ 4,995,881	37.7
COUNTY OF HAWAII:				
Property	$ 24,797,746	$ 21,602,726	$ 3,195,020	14.8
Fuel	2,012,086	2,030,502	(18,416)	(.9)
Sub-Total	$ 26,809,832	$ 23,633,228	$ 3,176,604	13.4
COUNTY OF KAUAI:				
Property	$ 9,496,130	$ 7,977,389	$ 1,518,741	19.0
Fuel	611,490	621,842	(10,352)	(1.7)
Sub-Total	$ 10,107,620	$ 8,599,231	$ 1,508,389	17.5
STATEWIDE:				
Property	$217,256,619	$186,209,287	$31,047,332	16.7
Fuel	19,455,056	16,273,135	3,181,921	19.6
TOTAL	$236,711,675	$202,482,422	$34,229,253	16.9

FUEL TAX RATES PER GALLON

	State	County	Total
GASOLINE & DIESEL OIL (HWY. USE):			
City & County of Honolulu	8½¢	6½¢	15¢
County of Maui	8½¢	5¢	13½¢
County of Hawaii	8½¢	5¢	13½¢
County of Kauai	8½¢	4¢	12½¢
LIQUID PETROLEUM GAS (HWY. USE):			
City & County of Honolulu	6¢	4¢	10¢
County of Maui	6¢	3¢	9¢
County of Hawaii	6¢	3¢	9¢
County of Kauai	6¢	3¢	9¢

REAL PROPERTY TAX VALUATIONS AND TAX RATES
FISCAL YEAR 1980-1981

(In Thousands of Dollars)

	City & County of Honolulu	County of Maui	County of Hawaii	County of Kauai	All Districts
Assessor's Gross Valuation (as of 1/1/80)[1]					
Land	$ 9,173,148	$1,404,098	$1,071,407	$425,564	$12,074,217
Improvements	7,343,331	1,235,675	845,161	382,919	9,807,087
TOTAL	$16,516,479	$2,639,773	$1,916,568	$808,484	$21,881,304
Total Exemptions	$ 5,873,062	387,567	542,795	158,934	6,962,358
Fifty Percent of Valuation on Appeal	$ 51,408	25,451	4,898	5,548	87,306
Valuation for Tax Rate Purposes	$10,592,009	$2,226,755	$1,368,875	$644,002	$14,831,641
Amounts to be Raised by Taxation	$ 161,316	$ 16,701	$ 24,503	$ 9,338	$ 211,858
Tax Rates Per $1,000 Value[2]	$ 15.23	$ 7.50	$ 17.90	$ 14.50	—

REAL PROPERTY TAX VALUATIONS AND TAX RATES
FISCAL YEAR 1979-1980

(In Thousands of Dollars)

	City & County of Honolulu	County of Maui	County of Hawaii	County of Kauai	All Districts
Assessor's Gross Valuation (as of 1/1/79)[1]					
Land	$ 8,165,707	$1,180,341	$ 961,656	$383,122	$10,690,826
Improvements	6,673,422	963,896	737,801	310,903	8,686,022
TOTAL	$14,839,129	$2,144,237	$1,699,457	$694,025	$19,376,848
Total Exemptions	$ 5,390,055	$ 352,453	$ 506,384	$153,669	$ 6,402,561
Fifty Percent of Valuation on Appeal	$ 44,861	$ 14,657	$ 1,700	$ 4,896	$ 66,114
Valuation for Tax Rate Purposes	$ 9,404,212	$1,777,127	$1,191,373	$535,460	$12,908,172
Amounts to be Raised by Taxation	$ 143,226	$ 11,498	$ 21,324	$ 7,764	$ 183,812
Tax Rates Per $1,000 Value[2]	$ 15.23	$ 6.47	$ 17.90	$ 14.50	—

[1] *Represents 60 percent of market value.*
[2] *See page A-9 for tax rates.*

NET TAXABLE ASSESSED VALUE BY LAND USE CLASSES

(In Thousands of Dollars)

OAHU

Land Use Classes	Land	Building	Total	Land & Bldg. Ratio L	Land & Bldg. Ratio B	% of Total
I. Improved Residential	$3,578,338	$1,247,066	$ 4,825,404	.74	.26	46
II. Hotel/Apartment	762,596	1,660,167	2,422,763	.31	.69	23
III. Commercial	730,242	1,311,662	2,041,904	.36	.64	19
IV. Industrial	647,002	346,962	993,964	.65	.35	09
V. Agricultural	94,135	32,948	127,083	—	—	01
VI. Conservation	13,289	6,018	19,307	—	—	—
VII. Unimproved Residential	154,239	7,344	161,583	—	—	02
TOTAL	$5,979,842	$4,612,167	$10,592,009	—	—	100

MAUI

I. Improved Residential	$ 444,388	$ 145,104	$ 589,492	.75	.25	26
II. Hotel/Apartment	354,200	692,706	1,046,906	.34	.66	47
III. Commercial	92,946	55,271	148,217	.63	.37	07
IV. Industrial	54,112	49,342	103,454	.52	.48	05
V. Agricultural	198,776	59,858	258,634	—	—	12
VI. Conservation	9,485	1,147	10,632	—	—	—
VII. Unimproved Residential	69,342	78	69,420	—	—	03
TOTAL	$1,223,249	$1,003,506	$ 2,226,755	—	—	100

NET TAXABLE ASSESSED VALUE BY LAND USE CLASSES
(In Thousands of Dollars)

HAWAII

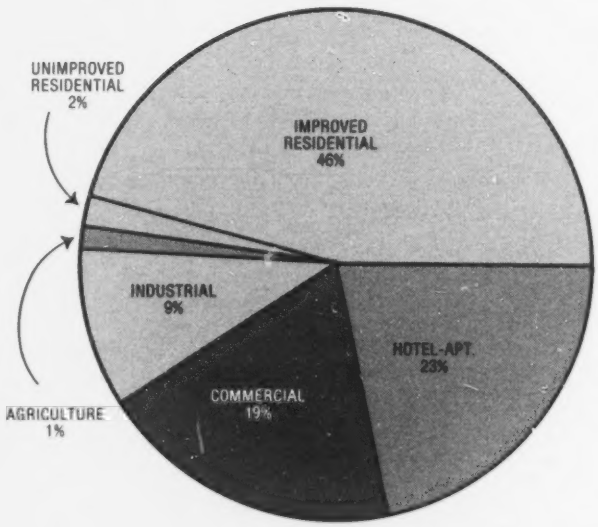
Land Use Classes	Land	Building	Total	Land & Bldg. Ratio L	Land & Bldg. Ratio B	% of Total
I. Improved Residential	$ 228,717	$ 123,506	$ 352,223	.65	.35	26
II. Hotel/Apartment	82,227	205,143	287,370	.29	.71	21
III. Commercial	52,172	61,856	114,028	.46	.54	08
IV. Industrial	26,807	43,254	70,061	.38	.62	05
V. Agricultural	383,994	81,397	465,391	—	—	34
VI. Conservation	22,780	1,300	24,080	—	—	02
VII. Unimproved Residential	50,898	4,824	55,722	—	—	04
TOTAL	$ 847,595	$ 521,280	$ 1,368,875	—	—	100

KAUAI

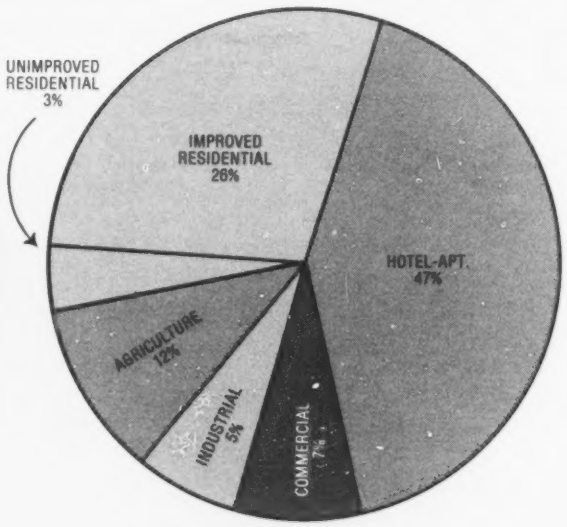
Land Use Classes	Land	Building	Total	Land & Bldg. Ratio L	Land & Bldg. Ratio B	% of Total
I. Improved Residential	$ 135,347	$ 83,869	$ 219,216	.62	.38	34
II. Hotel/Apartment	87,825	145,343	233,168	.38	.62	36
III. Commercial	28,710	26,186	54,896	.52	.48	08
IV. Industrial	7,265	13,137	20,402	.36	.64	03
V. Agricultural	57,403	11,992	69,395	—	—	11
VI. Conservation	10,373	1,075	11,448	—	—	02
VII. Unimproved Residential	32,204	3,272	35,476	—	—	06
TOTAL	$ 359,127	$ 284,875	$ 644,002	—	—	100

REAL PROPERTY
NET TAXABLE ASSESSED VALUE LAND USE CLASSES

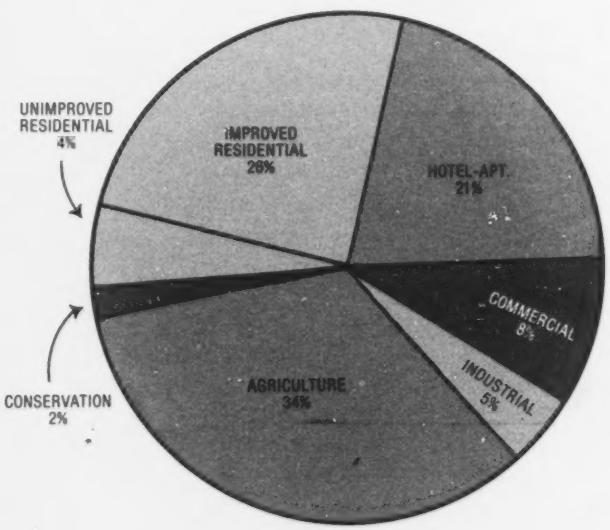
CITY & COUNTY OF HONOLULU
$10,592,009,037



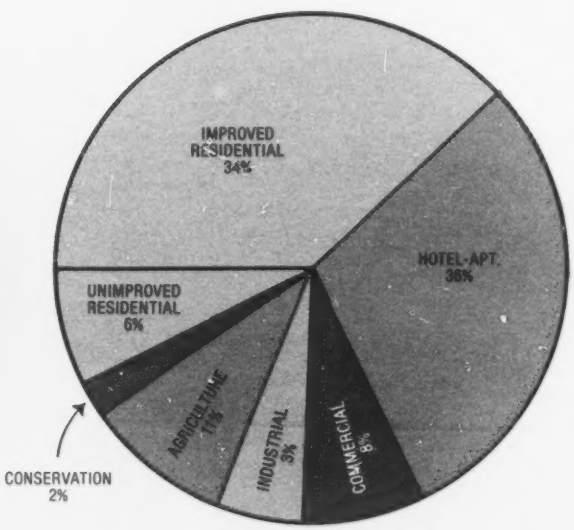
COUNTY OF MAUI
$2,226,755,208



COUNTY OF HAWAII
$1,368,874,832



COUNTY OF KAUAI
$644,001,523



REAL PROPERTY TAX RATES IN HAWAII
FISCAL YEAR JULY 1, 1980 TO JUNE 30, 1981

District	Tax Rate (Per $1,000 of Assessed Value)
Oahu	$15.23
Maui	7.50
Hawaii	17.90
Kauai	14.50

NOTE: Effective this fiscal year, for each tax district, the same tax rate applies to both land and improvements and to all classes of properties.

DEPARTMENT OF TAXATION
TRAINING PROGRAMS FOR FISCAL YEAR ENDING 6/30/81

	Training Course	No. of Employees	Hours of Training
1.	Clerical Seminar	39	312
2.	Coping With Stress	11	176
3.	Defensive Driving	1	8
4.	Files Improvement & Records Disposition Workshop	4	64
5.	First Aid Training	6	48
6.	Cardio-Pulmonary Resuscitation	4	16
7.	1980 Hawaii Tax Institute	14	560
8.	Research Institute of America	16	32
9.	First Annual Federal-State Tax Institute	2	32
10.	IRS Annual Tax Practitioner Institute	14	112
11.	IRS Continuing Professional Education for Revenue Agents	33	528
12.	Continuing Professional Education for Tax Auditors	24	384
13.	IRS Training on Unreported Income	22	176
14.	Income Tax Class	73	511
15.	Income Tax Update	2	32
16.	1980 Tax Measures	74	148
17.	IRS — Tax Protestors	40	160
18.	NATA Forty-Ninth Annual Meeting	1	24
19.	HSCPA 21st Annual Conference	1	16
20.	Effective Letterwriting	5	80
21.	How to Take & Use Depositions	1	8
22.	Annual Economic Forum	2	16
23.	The Nuts & Bolts of Motivation	1	4
24.	Motivating Employees	2	16
25.	Accelerated Reading Workshop	5	40
26.	New Employee Orientation	18	36
27.	Performance Appraisals that Produce Results	1	8
28.	Pre-Retirement Orientation	22	352
29.	Personal Safety & Self-Protection	96	192
30.	Asbestos Workshop	1	8
31.	Understanding Position Description/Classification	7	14
32.	AA/EEO Technical Assistance	1	7
33.	EEO Orientation Course	12	96
34.	Supervisory Management Course I	4	80
35.	Supervisory Management Course II	1	20
36.	Supervisory Skills Training	3	72
37.	Fundamentals of Data Processing for the Non-Data Processing Executive	1	24
38.	Selecting Your First Micro/Mini Computer	2	14
39.	Value Clarification	2	32
40.	Effective Public Contact	1	8
41.	Values In Action	1	8
42.	Management of Conflict	1	8
	TOTALS	571	4,482

OUTLINE OF HAWAII TAX SYSTEM AS OF JULY 1, 1980

Issued by the Department of Taxation

KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
(1) Net Income Chapter 235—Sec. 235-1 to 235-119	The Income Tax Law, adopted with certain exceptions the provisions of the Internal Revenue Code of 1954, with amendments to December 31, 1979, in the determination of gross income, adjusted gross income, ordinary income and loss, and taxable income. The law allows $1,000 personal exemption for individuals (double exemption for those over 65 years or over), $7,000 for a blind, deaf or totally disabled taxpayer, $400 for an estate, $200 for a simple trust and $80 for a complex trust. Tax rates for individuals are: 2.25% on first $500; 3.25% on next $500; 4.5% on next $500; 5% on next $500; 6.5% on next $1,000; 7.5% on next $2,000; 8.5% on next $5,000; 9.5% on next $4,000; 10% on next $6,000; 10.5% on next $10,000; 11% over $30,000. Tax rates for head of household are: 2.25% on first $500; 2.75% on next $500; 3.9% on next $500; 4.1% on next $500; 5.5% on next $1,000; 6.6% on next $2,000; 7.9% on next $5,000; 9.15% on next $10,000; 10.05% on next $10,000; 10.5% on next $10,000; 10.75% on next $20,000; 11% over $60,000. Tax rates for corporations are: 5.85% up to $25,000; 6.435% over $25,000.	Returns due 20th day of 4th month after close of taxable year. Withholding returns due monthly on or before the last day of the succeeding calendar month. When the total tax liability is less than $500 for the calendar year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. An annual employer's return and reconciliation of Hawaii income tax withheld Form HW-3 must be filed together with a duplicate copy of each employee's tax statement Form HW-2 on or before February 28 of each year. Estimates of income of individuals not subject to withholding, April 20th. Estimates of corporations, September 20th.	In general at time of filing returns. Estimates of individuals one-quarter April 20th; June 20th; September 20th; and January 20th. Corporations one-half September 20th and January 20th.
(2) Inheritance and Estate Chapter 236—Sec. 236-1 to 236-44	Hawaii resident tax on shares of net estate. Non-resident tax on shares of net estate having situs in Hawaii. Exemptions (a) Bequests to spouse $100,000; (b) parent, child, grandchild or legally adopted child $50,000; (c) bequests to others $5,000. Tax rates: (a) 2% to 7%, (b) 3% to 8%, (c) 3% to 10% respectively. Estate Tax on corpus of estate having tax situs in Hawaii, to take advantage of the maximum credit for state death taxes under basic federal estate tax. Tax computed by subtracting inheritance tax from the maximum credit for state death taxes allowed.	The Personal Representative of the decedent's estate shall file a return. If there will be no administration of the estate, the return must be executed and filed by any person in actual possession of decedent's property, such as joint owner, trustees, transferees, beneficiaries, etc.	Payments within 18 months after death.
(3) General Excise (Gross Income) Chapter 237—Sec. 237-1 to 237-49	This is a business privilege tax measured by gross proceeds of sales or gross income. The tax rate is ½ of 1% on wholesaling and intermediary services, blind vendors, producing, manufacturing, sugar processing and pineapple canning; all other activities (retailing business and professional services, contracting, theatre, amusement, radio, interest, commissions, rentals) are taxed at 4%, except insurance commissions received by general agents, subagents, and solicitors who are taxed at .15%. A license must be secured and renewed annually on a calendar year basis. The cost is $2.50, plus an additional 50¢ for certain retailing activities.	Monthly returns are due on or before the last day of the following month. When the total tax liability is less than $500 for the calendar year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. An annual summary and reconciliation return must be filed on or before the 20th day of the fourth month following the close of the taxable year.	At time of filing returns.
(4) Use Chapter 238--Sec 238-1 to 238-16	This is an excise tax levied on tangible personal property which is imported or purchased from an unlicensed seller for use in the State. The tax is based upon the purchase price or value of the tangible personal property purchased or imported, whichever is applicable. Rates: 1/2 of 1%, if for resale at retail; 4%, if for use or consumption. For exceptions, see Sections 238-3 and 238-4.	Monthly returns are due on or before the last day of the following month. When the total tax liability is less than $500 for the calendar year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. An annual return is due on or before April 20th of each year. These returns have been consolidated with the general excise (gross income) tax returns and are filed simultaneously.	At time of filing returns.
(5) Public Service Company Chapter 239—Sec. 239-1 to 239-10	Nature of Tax—(1) Public utility business in lieu of general excise and real property taxes. (a) Measure of assessment—general rule: Gross income from public utility business of public utilities for preceding calendar year. For exception, see Sec. 239-9. (b) Rates: (i) Gross income from passenger fares for transportation between points on a scheduled route by a carrier of passengers, 5.35%. (ii) Sale of its products or services to another public utility which resells such products or services, ¼ of 1%. (iii) All other revenues: If ratio of net to gross income is 15% or less, 5.885%; for each 1% increase in ratio of net to gross, rate increase .2675%. (2) Airline, motor carrier, common carrier by water and contract carrier business (other than motor carrier business) in lieu of general excise tax. (a) Measure of assessment—general rule: Gross income from airline, motor carrier, common carrier by water and contract carrier business for preceding calendar year. For exception, see Sec. 239-9. (b) Rate: 4% of gross income, except airlines having special fare schedule for students, 3% of gross income.	Returns filed on or before April 20th, based upon calendar year operations of preceding year.	First installment at time of filing return, or, on or before April 20. Other installments on 20th of June, September and December.

KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
(6) Banks, Building and Loan, Industrial Loan Companies and Certain Other Financial Corporations Chapter 241—Sec. 241-1 to 241-7	(1) (a) Assessment Date: January 1. (b) Nature of Tax: a franchise tax on banks, building and loan, industrial loan companies, financial corporations and small business investment company not subject to taxes imposed by Chapters 235 and 237. (For industrial loan company and small business investment companies exemption under Chapter 237 (gross income tax).) (2) Measure of Assessment: Net income for the preceding year from all sources as defined by Chapter 235 (Income Tax Law) with modifications. (3) Rate: 11.7% of taxable income.	Returns filed on or before April 20, or the 20th day of the fourth month after the close of the fiscal year.	First installment at the time of filing return, or, on or before the 20th day of the 4th month. Other installments due on the 20th day of the 2nd, 5th and 8th month thereafter.
(7) Fuel Chapter 243—Sec. 243-1 to 243-16	Distributors, as defined, are required to pay: 1¢ per gallon on aviation fuel; an initial 1¢ per gallon on diesel oil, liquefied petroleum gas for operation of an internal combustion engine and from 12½¢ to 15¢ per gallon on liquid fuels other than the foregoing; also, pay additional taxes of from 12½¢ to 15¢ per gallon on diesel oil and from 9¢ to 10¢ per gallon on liquefied petroleum gas used to operate motor vehicles upon the public highways; however, they are not required to pay these additional taxes if purchasers furnish Exemption Certificates on Form M-38.[1] Refunds of liquid fuel used for agricultural equipment not operated upon the public highways or diesel oil and liquefied petroleum gas used for motor vehicles not operated upon the public highways may be claimed on Form M-36. Distributors are required to register and be licensed. Licenses are valid until revoked.	Returns are due monthly on or before last day of the following month.	At time of filing returns.
(8) Liquor Chapter 244—Sec. 244-1 to 244-17	"Dealers" as defined in the law and certain others who sell or use liquor must pay an excise tax equal to 20% of the wholesale price. A $2.50 liquor tax permit is required and must be renewed before July 1st of each year. See Sec. 244-4 for exemption from tax.	Returns filed on or before the last day of succeeding calendar month.	At time of filing returns.
(9) Tobacco Chapter 245—Sec. 245-1 to 245-15	"Wholesalers" as defined in the law and certain others must pay an excise tax on sale or use of tobacco products, equal to 40% of the wholesale price. A $2.50 tobacco tax license is required and must be renewed before July 1st of each year.	Returns filed on or before the last day of succeeding calendar month.	At time of filing returns.
(10) Real Property Chapter 246—Sec. 246-1 to 246-63 Chapter 248 County Budgets	(1) Date of Lien: July 1. (2) Measure of Assessment: (a) Fair market value at highest and best use assessed to owner or owners; (b) Building replacement less depreciation. (3) Classes of Property: (a) single-family and two-family residential; (b) hotel, apartment and resort; (c) commercial; (d) industrial; (e) agricultural; and (f) conservation. (4) Rate Per $1,000 of Assessed Value: Oahu—$15.23; Maui—$7.50; Hawaii—$17.90 and Kauai—$14.60. (5) Tax rates for each county shall be adopted on or before June 20 preceding the tax year. (6) Minimum real property tax, $7 per year.	The deed shall have been recorded and exemption claims must be filed on or before December 31. Notice of Assessment mailed to taxpayer by March 15 preceding the tax year. Appeals must be filed on or before April 9.	Tax bills mailed by July 20. Payable in two installments—August 20 and February 20.
(11) Conveyance Chapter 247—Sec. 247-1 to 247-13	This tax is imposed on all documents transferring ownership or interest in real property. The rate is 5¢ per $100.00 of the actual and full consideration paid or to be paid. Minimum $1.00 tax for each taxable transaction. (Documents of certain conveyances are exempted.)	A certificate of conveyance must be filed with the document at the Bureau of Conveyance within 90 days after a taxable transaction; a claim for exemption from the conveyance tax must be filed for certain exempt conveyances.	At time of filing the certificate, but no later than 90 days after the taxable transaction.
(12) Hawaii Employment Security (Federal) Chapter 383—Sec. 383-1 to 383-174	This is a tax on wages paid, payable by employers of one or more employees with certain exemptions. The law on unemployment insurance benefit financing, amended to be effective January 1, 1979, retains the reserve ratio method of financing and establishes a two-part schedule consisting of a Basic Contribution Rate Schedule and a Fund Solvency Contribution Rate Schedule. The basic contribution rate will reflect the employer's own experience with unemployment and the fund solvency rate will reflect the trust fund's financial condition and experience of all covered employers. The employer's total contribution rate will not be less than 0% or greater than 4.5%.	Returns filed on or before the last day of the month following the taxable quarter.	At time of filing returns.
(13) Insurance Premiums Chapter 431—Sec. 431-1 to 431-726	Tax on insurance companies (Underwriters) based on premiums received in Hawaii. In lieu of all taxes except property tax and taxes on the purchase, use or ownership of tangible personal property. Tax Rates: Life Insurance Domestic 1.918%; Foreign 3.197%; 4.68% on Surplus Lines; Ocean Marine .8775% of 1% on gross underwriting profit; on other Insurance Domestic 2.9647%; Foreign 4.2824%. This law is administered and the tax collected by the Insurance Commissioner who is required to report to the Director of Taxation all amounts of taxes collected under this chapter.[2]	Monthly or quarterly interim statements based on previous year's liability filed on or before the last day of the succeeding calendar month. Annual statement filed on or before March 15th with the Insurance Commissioner.	At time of filing statements.

[1] Increase from 3½¢ to 6½¢ per gallon, effective December 1, 1979.
[2] See Act 144, 1978, relating to increase in premium rates applicable to all premiums and gross underwriting profit received during calendar year 1979 and thereafter.

Document Processing Branch

Receiving
& Sorting Section

Document
Preparation Section

Monetary Control Section

Data Control
& Entry Section

File Maintenance
& Typing/Clerical
Support Section

DEPARTMENT OF TAXATION

ANNUAL REPORT 1981–1982

Form **N-12** **1981**
(REV. 1981)

STATE OF HAWAII — DEPARTMENT OF TAXATION

Individual Income Tax Return

RESIDENT

Calendar Year 1981

or other taxable year beginning ....., 1981 and ending ....., 198.....

Office Aud. _____ Field Aud. _____

Use state label. Otherwise, print or type.

Name (if joint return, give first names and initials of both) | Last name | Your social security number

Present home address (Number and street, including apartment number, or rural route) | Spouse's social security no.

City, town or post office, State and ZIP code | Occupation: Yours / Spouse's

Filing Status

(Check only ONE box)

1 ☐ Single
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security no. above and full name here ▶ .....
4 ☐ Head of household. If qualifying person is your unmarried child, enter child's name ▶ .....
5 ☐ Qualifying widow(er) with dependent child (Year spouse died ▶ 19).

Exemptions

6a ☐ Yourself ☐ 65 or over
b ☐ Spouse ☐ 65 or over
c First names of your dependent children who lived with you ▶ .....
.....

d Other dependents: (1) Name	(2) Relationship	(3) Number of months live in your

7 Total number of exemptions claimed .....
8 Check here ☐ if blind, deaf or disabled. (See page 3 of ins

Income

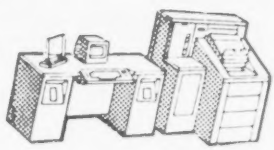
9 Wages, salaries, tips, and other employee compensation
10a Interest Income (If over $400, attach Sch. B)_____
11a Dividend Income (If over $400, attach Sch. B)_
12 Income other than wages, dividends, and int
13 Total (add lines 9, 10c, 11c, and 12) ...
14 Adjustments to income (such as movi
15 Adjusted gross income. Subtract li

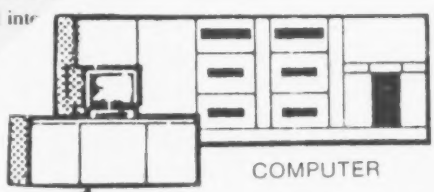
If you do not itemize deductions
If you itemize deductions or

Payments and Credits

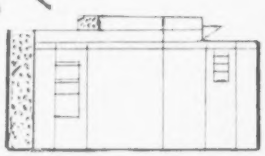
16 Tax, check if from: ☐
Form N-152, N-16
17 Credits (from
18 Balance: S
19a Total
b 19

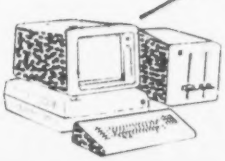
1985





COMPUTER





• ATTACH COPY B OF FORM HW-2 HERE •

ONEY ORDER HERE •

BEST AVAILABLE COPY

The Honorable George R. Ariyoshi
Governor
State of Hawaii

George Freitas
Director of Taxation
State of Hawaii

October 5, 1982

The Honorable George R. Ariyoshi
Governor of the State of Hawaii
State Capitol
Honolulu, Hawaii 96813

Dear Governor Ariyoshi:

It is my pleasure to promptly present the Annual Report on the operations and accomplishments of the Department of Taxation for the year ending June 30, 1982.

Fiscal year 1981-1982 was a full year in which the Department of Taxation operated under the new reorganization which you approved on May 13, 1981. It was also our first year utilizing our new modified General Excise and Withholding CRT on-line automation system. We are particularly proud of our ability to reduce the average receipt processing time of remittances under three calendar days and to improve the turnaround time to process individual taxpayer's income tax refunds to within eight weeks. At the same time, we were able to make a concerted effort to improve our public service responsibilities through creation of the new Taxpayer Services Branch which has successfully assisted the taxpayers of Hawaii.

We have initiated additional programs to further enhance our ability to process returns, enforce tax laws, assist taxpayers and improve the overall tax administration which will be reflected in departmental operations. Greater emphasis will be placed on our new Compliance Division's Nonfilers' section. A nonfilers action plan has been activated and the results will be evident in the future years.

The department was able to meet statutorily mandated challenges and still make significant progress in improving internal operations. The extraordinary assistance and cooperation of each employee in the department contributed to the improvements in all areas.

The total tax collections was $1.1 billion or a decrease of 17.4% which is primarily due to the $100 general income tax credit per exemption. (These figures do not include the collection figures for real property function which was transferred to the counties.) The general income tax credit is estimated to amount to $90 million by 1982 year end. The following report details the department's operation for the fiscal year 1981-1982, its accomplishments and plans.

The successful operation of the department could not have been accomplished without the commitment and dedication of my employees in giving their best efforts to service the people of Hawaii.

Respectfully submitted,

George Freitas

GEORGE FREITAS
Director of Taxation

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THE YEAR IN REVIEW

ADMINISTRATION

The tax department has successfully completed one full year of operation under a new reorganization plan which was approved on May 13, 1981 for Oahu personnel and on December 12, 1981 for the neighbor island district personnel. The new organization emphasized a two divisional operation; namely, Compliance and Taxpayer Services & Document Processing divisions. The tax department concentrated on several new activities within each division. In the Compliance division, a new section was started to enforce compliance by non-filers; and in the Taxpayer Services & Document Processing division, a taxpayer services branch was started to assist and educate the taxpayers in voluntarily complying with Hawaii's tax laws. The Taxpayer Services & Document Processing division also started, for the first time, a document processing branch which will handle all tax documents from receiving and sorting to file and record maintenance. In previous years, the various functions of document processing were relegated to several staff and line offices. The new document processing branch has better control and security of the taxpayers' tax returns and correspondence. These divisions also complemented our new modified general excise and withholding tax automation system which was accepted by the tax department on October 31, 1981 from our consultant, Deloitte, Haskins & Sells, CPAs.

The efficiency and effectiveness of the tax document handling procedures were very evident during the tax season commencing January through June, 1982. Tax collections were deposited within 48 hours of receipt and individual tax refunds to the taxpayer were processed within 8 weeks.

During the past tax season, the tax department formed a quality review committee to review and evaluate the new system and procedures under the new reorganization. The results of the committee's evaluation were very timely and beneficial in improving the integrity of our new system and procedures. The quality review activity during the future tax seasons will be an ongoing activity.

TAXPAYER SERVICES AND PROCESSING DIVISION

The objectives of the Tax Services & Processing Division are to process all tax documents received in the most efficient and expeditious manner possible, to maintain accurate accounting records for all tax programs, and to provide service to all taxpayers who seek assistance through correspondence, telephone and/or personal contact on tax matters.

To meet these objectives, the Division installed a mail belt system in the Receiving and Sorting Section, installed a telephone sequencer in the Taxpayer Services Branch, provided taxpayers tax return forms through a self-service area and centralized distribution window, centralized revenue accounting, centralized the data entry function on Oahu to give the Department greater flexibility in servicing the major programs, and developed a recruitment concept whereby a resource of temporary help was always available for immediate hire during the busy periods. As a result of these improvements, the Tax Services & Processing Division opened and distributed 1,230,732 pieces of mail within 24 hours of receipt, processed 286,350 refund returns within four weeks to office audit branch, serviced 43,226 taxpayers over the counter during 1/2/82 to 4/20/82 (21,656 during same period last year), and answered 48,503 telephone calls during the busy period 1/2/82 to 4/30/82 (34,419 calls during same period last year).

Other projects that were started during this fiscal year were the microfilming of neighbor island GEW returns and an outreach program where special interest groups, such as the elderly and the handicapped, could be conveniently serviced at satellite stations. The outreach program was coordinated with the IRS VITA (Voluntary Income Tax Assistance) program.

The Tax Services & Processing Division did meet its objectives very satisfactorily and intends to better this performance by implementing office automation concepts for the following year.

COMPLIANCE DIVISION

Act 231, enacted by the Eleventh State Legislature, had a tremendous impact on the resources of the audit branch. The Act provided for a one-time $100.00 general income tax credit to each resident individual taxpayer.

In September 1981, plans were developed to cope with the anticipated increase in the number of refund returns. Our audit procedures were revised to minimize the number of detail audits during the filing period. Returns which appeared to be in order were processed for refund without further examination. Returns with obvious errors, within certain guidelines, were corrected and processed immediately; and other returns with questionable items, but with a small refund, were classified for future examinations.

Our dedicated employees were able to accomplish the processing of greater numbers of refund returns at a much faster rate than in the prior year. As of June 30, 1982, the number of income tax returns processed was 348,677, an increase of 16 percent over the 299,643 returns processed as of June 30, 1981.

The number of completed field audits increased 12%, from 971 to 1,086; and the number of assessments increased 23%, from $6.6 million to $8.1 million.

The number of office audits declined from 470,097 in fiscal 1981 to 428,528 in fiscal 1982, with a corresponding decrease in the amount of assessments, from $18.7 million to $5.7 million. Contributing to this decrease were several factors: 1) the change in audit procedures, as mentioned above, whereby auditing of most of the returns were postponed until after the tax season in order to expedite the processing of refunds; 2) the increase in the number of amended returns, resulting from the late change by the 1982 Legislature in the qualifications for the $100 general income tax credit; and 3) decline in the average amount of additional assessment per general excise and withholding tax return audited.

The amount of outstanding delinquent taxes increased 52%, from $38,267,157 as of FYE 6/30/81 to $58,096,064 as of FYE 6/30/82. This increase was caused by weaknesses in the basic industries of our State, such as tourism, construction, and sugar, and the tight money situation which have resulted in business failures, bankruptcies, and foreclosures. Affected taxpayers did not have the ability to timely liquidate their tax obligations.

Aggressive steps were taken to reduce the amount of outstanding delinquent taxes. Referrals of delinquent taxes were processed at a much faster rate than formerly. To enforce compliance in terms of the due dates, penalty and interest bills were sent on a regular basis. Liens were immediately filed for those taxpayers who had not arranged to liquidate their tax obligations on an acceptable installment basis.

Delinquent collections for the FYE 6/30/82 amounted to $28.1 million. The number of new referrals increased 40% from 38,093 accounts to 53,259. However, as a result of our efforts in the mailing of penalty and interest bills, the number of accounts at the end of the year declined 31%, from 37,115 to 25,720. The results of other measurements are summarized below:

	FYE 6/30/82	FYE 6/30/81
Accounts Closed	59,192	30,076
New Payment Plans	598	1,214
New Liens	1,208	1,944
New Levies	98	122

During this fiscal year, a positive program to secure non-filed General Excise and Withholding Tax Returns was started in the Oahu Enforcement Branch. The results are indicated below:

	GEW & Use
Accounts Contacted	7,204
Accounts Closed	4,299
Returns Received	7,742
Total Liabilities Filed	$3,340,000
Total Remittances Received	$1,210,000

STAFF OFFICES

Administrative Services Office

As a result of the reorganization, the budget and actual results of the tax department operations needed to be changed so that the divisions, branches and sections, as well as staff offices, could be provided their operating financial results. To accomplish this, an in-house Lanier Word Processing machine which had a financial program to accommodate our financial reporting system, was utilized.

During the past year, the renovation of the first floor of the tax office building to accommodate the new document processing branch activities was completed. (See activities on backcover of this Annual Report.) The consolidation of all document processing activities to the first floor was based on physical consideration, centered around sequential processing functions being physically located next to each other. The smooth flow of documents and the cross utilization of personnel equalized the peak of workload.

The reorganization and change of physical facilities were conducive to implementing a security badge identification system for the first floor. The identification badges were color coded to designate wearers permission to enter certain secured areas. This security system has worked very well with resulting increased personnel productivity and control of documents.

The Legislature authorized the department 323 positions for the fiscal year. The positions were geographically distributed as follows: Oahu 250; Hawaii 36; Maui/Molokai 22; and Kauai 15.

Movements within the Department were characterized by 23 civil service new hires for permanent regular positions, 94 hires for temporary appointments; 16 retirements. Other transactions included promotions, transfers and reallocations totaling 74; resignations 9; and terminations, involving temporary positions 84.

STAFFING PATTERN

By Organizations/Operating Programs	**1982**[1]	**1981**
Headquarters Administration	36	79
Tax Services and Processing Division		
Document Processing Branch	69	
Taxpayer Services Branch	11	
Revenue Accounting Branch	9	
Compliance Division		
Audit Branch	120	
Enforcement Branch	78	
Property Assessment	[2]	112
Income Assessment & Audit		157
Field Administration		10
Collections		76
TOTAL	323	434

[1]Reflects Reorganization effective December, 1981.
[2]Real property transferred to the counties effective July 1, 1981.

Note: Above does not include, a) temporary clerical support positions utilized during the peak periods and special projects, b) temporary student positions during the summer.

Systems and Procedures Office

On March 30, 1982, the Phase I of the comprehensive net income tax system was successfully completed by our consultant, Alexander Grant & Co., CPAs, with the assistance of our tax department's user committee and the EDP Division of the Department of Budget & Finance. The completion of Phase I resulted in a detailed system requirement definition and detailed application design document report. The user committee accomplished its objectives in a timely and professional manner.

The department is preparing for Phase II (system internal specification, program testing and implementation) of the comprehensive net income system for the future years. The necessary approvals and appropriation of Phase II funding will need to be obtained during the next fiscal year.

Seeing is believing when the 12 CRT (Cathode ray tube) IBM terminals were installed and operational during the past fiscal year. Our general excise and withholding system (GEW) took a quantum jump forward by displaying a profile of the GEW taxpayer's record on the terminal within 8 seconds. Previously it took weeks before a printout could be obtained. This major accomplishment was very evident and beneficial in our statewide enforcement, audit, and taxpayer services branches' operational results. There are 12 CRT terminals on order for delivery and installation during October, 1982. Our effectiveness in assisting the taxpayers and enforcing our tax laws will be further enhanced with our new on-line capability. *We anticipate in the future another quantum leap forward with a new automated net income tax system complementing our present GEW system.*

Income Technical Office

The Income Technical Office prepared testimonies on 62 house bills, 67 senate bills, three house concurrent resolutions, two house resolutions, three senate concurrent resolutions and three senate resolutions during the 1982 legislative session.

Approximately 435 memorandums, rulings and letters were issued by the Income Technical Office.

Fifty-seven (57) applications for exemption from the payment of general excise taxes from nonprofit organizations were received, 56 were approved, and one disapproved.

Tax Information Releases numbered nine compared to seven for the prior fiscal year. In addition, there were nine Department of Taxation Announcements issued during the year ending June 30, 1982.

Rules relating to the Income Tax Law, General Excise Tax Law, Use Tax Law, Mortgage Loan Exemption, Fuel Tax Law and Conveyance Tax were put into the statewide format and approved by the Governor on February 16, 1982.

Rules for the fuel tax credit for commercial fishers (Section 235-14, HRS) were drafted and approved.

The Income Technical Office conducted or coordinated the following training sessions:

- -- Training on tax acts enacted by the 1981 legislative session. This class was held at all districts.
- — Hawaii Tax Institute, which is sponsored by Chaminade College, was attended by 12 departmental personnel.
- — Annual training session. This session was held on the Island of Oahu for all island departmental personnel.

Tax Research and Planning

The initial estimate of the Council on Revenues forecasted the general fund revenue to decline 1.3% in fiscal 1982 to $1,024 million. However, actual collections totaled $999.7 million or a drop of 3.7% from 1981. A lower than expected business activity and a more moderate rate of increase in the consumer price index influenced the difference in actual results. Other factors considered when preparing the 1982 estimate included: a) the $100 general income tax credit allowed each resident taxpayer; b) the increase in benefits provided by various tax credits; c) the exclusion ($200-$400 depending on marital status) of dividend and interest income from personal net income; and d) the transfer of general excise taxes generated by the retail sale of fuel used on the highways from the general fund to the special highway fund. In the first year since its enactment, $16.5 million was transferred to the special highway fund.

Total state personal income was estimated to grow 10.6% for calendar 1981 by the Council on Revenues. The actual growth, based on the latest revised figures, was 11.5%.

In its effort to become current, the Tax Research and Planning Office completed six studies during the year. Five of these studies are part of the continuing series of Hawaii Income Patterns. They are the 1977 Sole Proprietorship Study covering statistics on sole proprietorship tax returns filed in 1978; the 1977 Corporate Study covering corporation tax returns filed in 1978; and three separate reports on the Hawaii Income Patterns Study on Individuals covering data from individual income tax returns filed in 1979, 1980, and 1981.

A fourth consecutive special study on tax credits claimed by individuals in 1980 was published in January, 1982. This report, based on information gathered from individual income tax returns filed in 1981, determined the revenue impact of the five types of credits: the excise, renters, child care expense, solar energy device, and hot water insulation tax credits.

For fiscal year 1983, the first composite Business Income Study will be completed covering statistics from a sample of 1979 corporation, partnership and sole proprietorship returns. This series will be published biennially. The 1981 Business Income Study, scheduled for completion in June, 1983, will cover corporate and partnership returns, as well as a sample of proprietorship returns. The 1981 Tax Credit Study and the 1981 Hawaii Income Patterns Study on Individuals are also planned for publication in fiscal 1983.

The Tax Research and Planning staff reviewed more than 125 tax measures introduced during the 1982 legislative sessions to determine the revenue impact of each proposal. A brief summary of the tax measures enacted is presented under "Legislation," page 14 of this annual report.

Main Lobby

ADMINISTRATIVE STAFF

OFFICE OF THE DIRECTOR

Director of Taxation ..... George Freitas
Deputy Director of Taxation ..... Wallace Aoki

HEADQUARTERS STAFF

Income Program Officer ..... Tomotaru Ogai
Tax Research and Planning Officer ..... Robert Koike
Systems and Procedures Officer ..... Edwin Matsui
Administrative Services Officer ..... Gilbert Chang

OPERATIONS STAFF[1]

Compliance Division Chief ..... Herbert Dias
- Audit Branch (Oahu) ..... David Miyahira
- Enforcement Branch (Oahu) ..... Wayne Kinoshita
- Audit Branch (Maui) ..... James Horikawa
- Enforcement Branch (Maui) ..... Stanley Ching

District Tax Administrator, Hawaii District Office ..... Sanford Yanagi
- Audit Branch ..... Ronald Yabe
- Enforcement Branch ..... Wendell Serrao

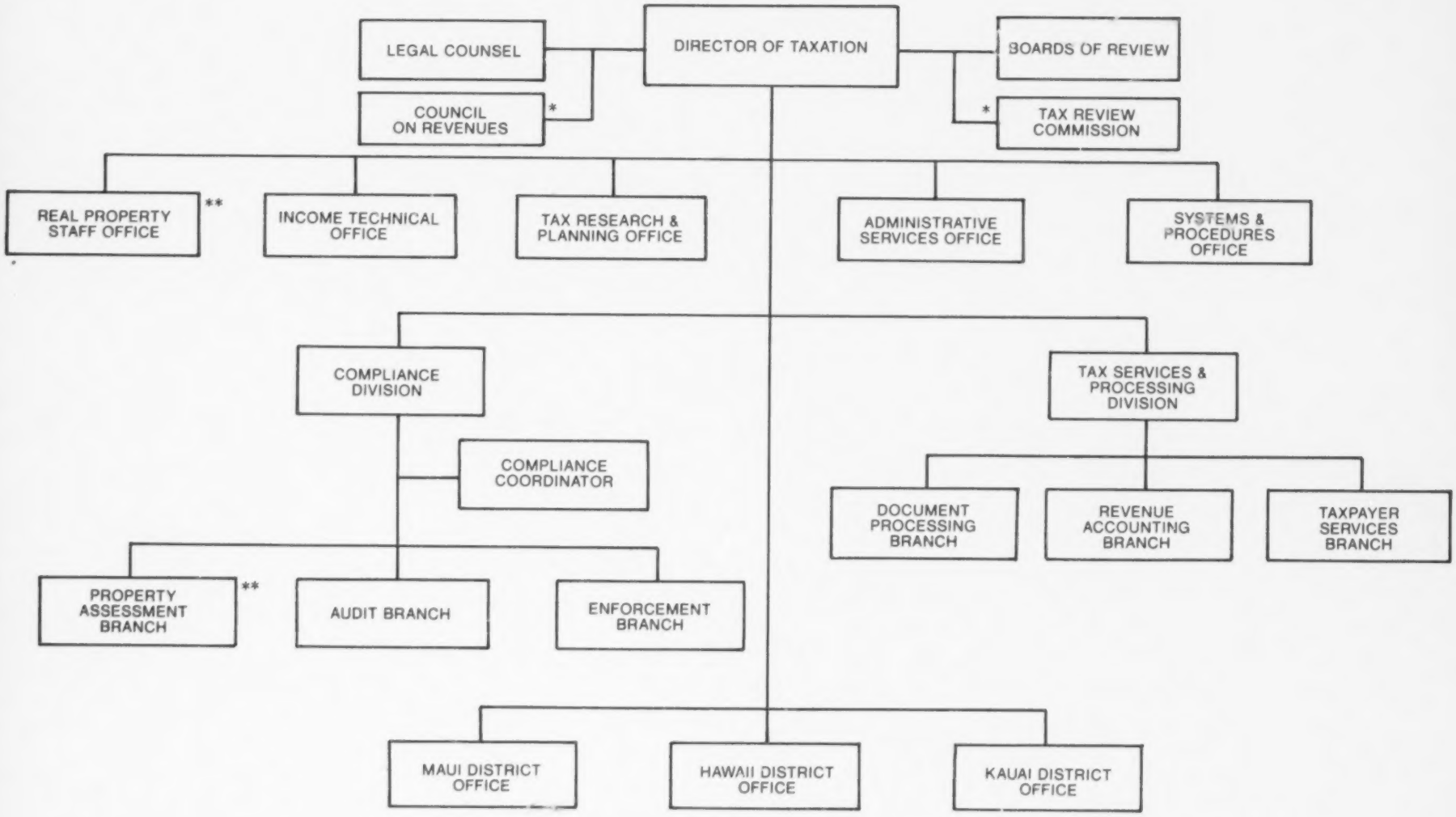
District Tax Administrator, Kauai District Office ..... Thomas Nishimitsu
- Audit Branch ..... Ernest Balderas
- Enforcement Branch ..... Helen Teraoka

Tax Services & Processing Division Chief ..... Kenneth Murayama
- Taxpayer Services Branch ..... Lawrence Nakano
- Document Processing Branch ..... Richard Yokota
- Revenue Accounting Branch ..... Warren Higashi

[1] *Reorganization approved December 12, 1981 placed neighbor island District Offices and Branches organizationally under Compliance Division.*

ORGANIZATION CHART

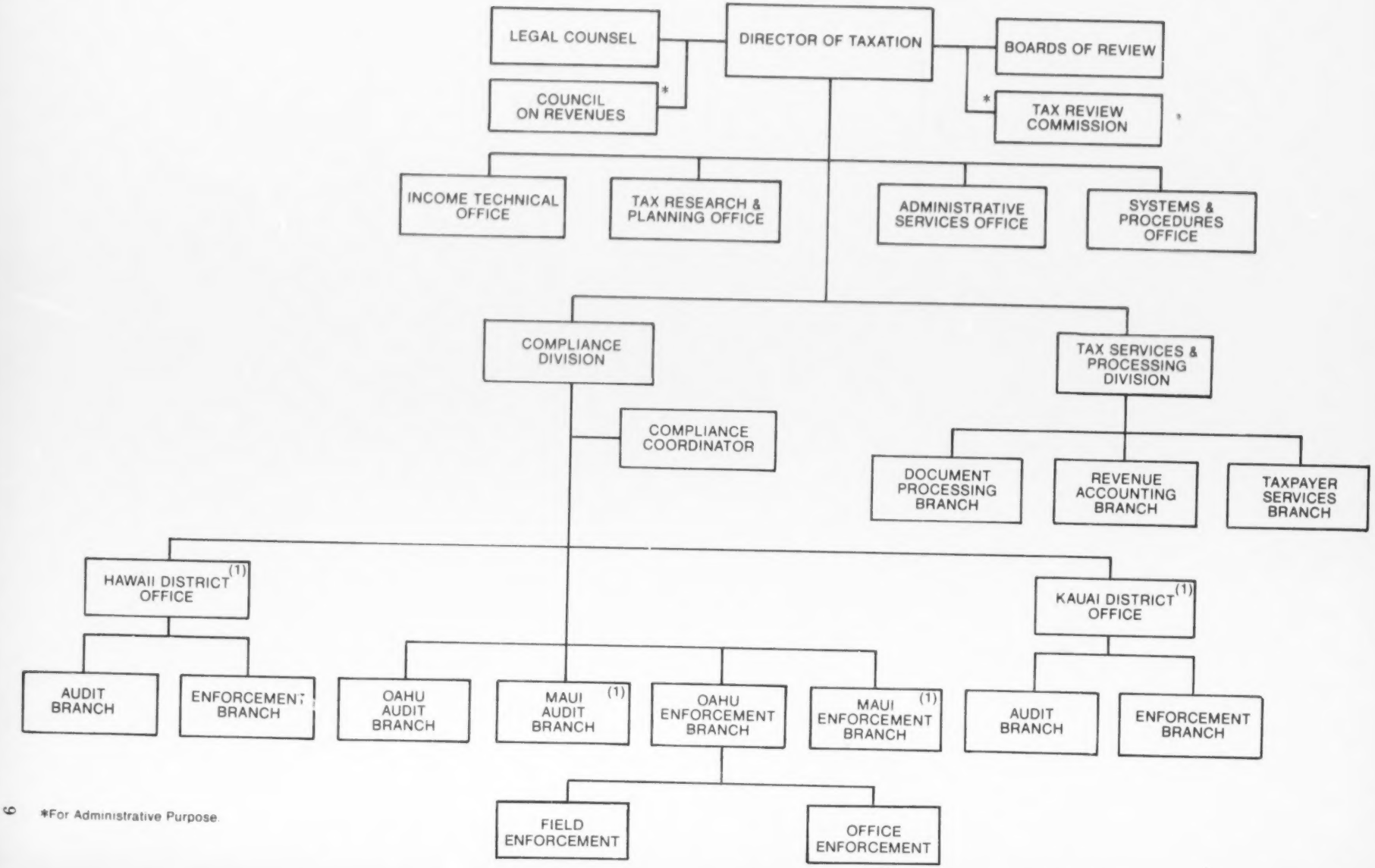
Department of Taxation
State of Hawaii
(Effective May 13, 1981)



*For Administrative Purpose
**Temporary to 6/30/81 when transferred to County Jurisdiction

ORGANIZATION CHART

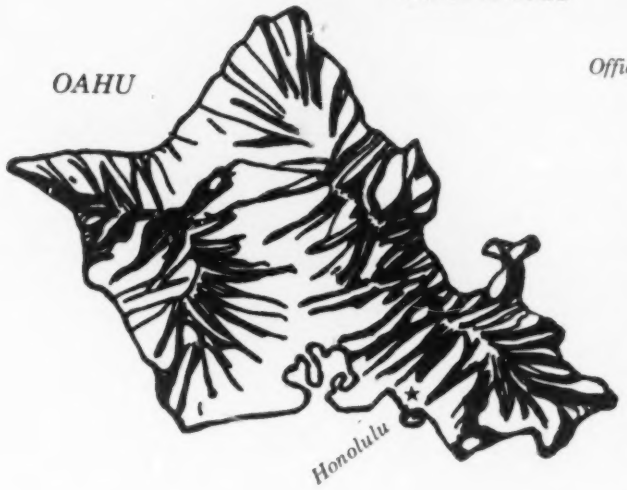
Department of Taxation
State of Hawaii
(Effective December 12, 1981)(1)



*For Administrative Purpose.

FIRST TAXATION DISTRICT

Island of Oahu

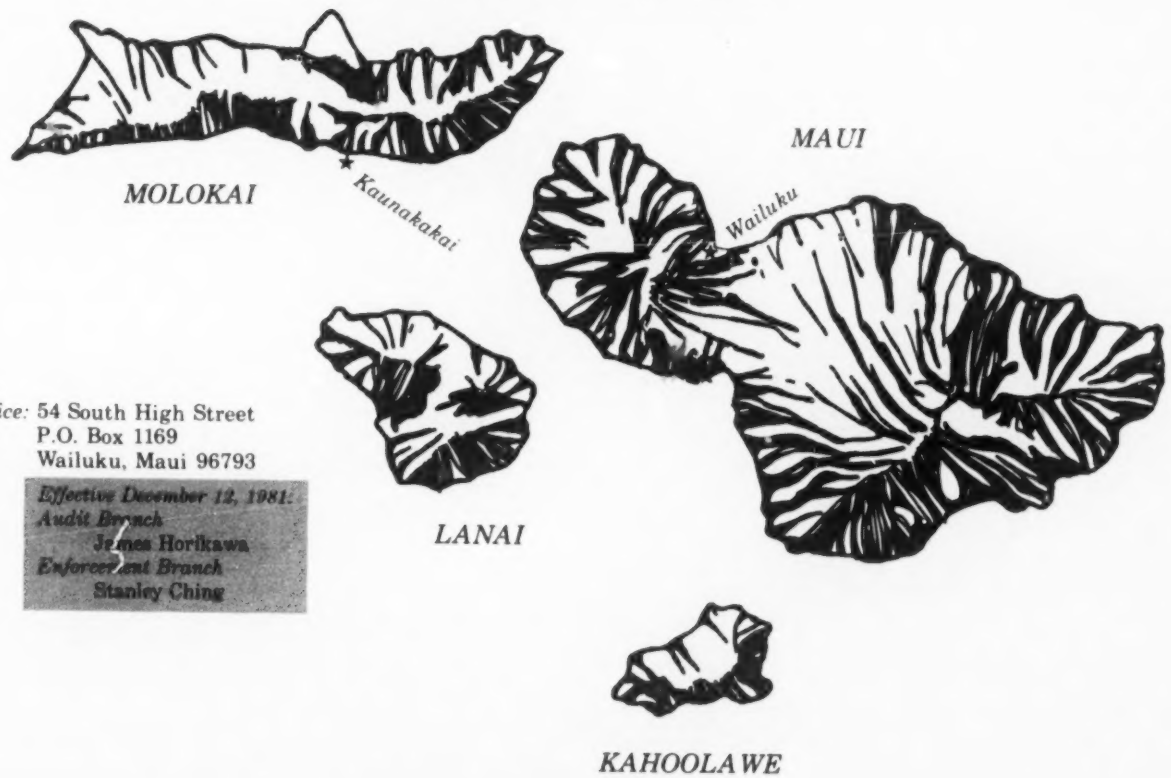


Office: 425 Queen Street
P.O. Box 259
Honolulu, Hawaii 96809

Effective December 12, 1981:
Compliance Division Chief
Herbert Dias
Audit Branch Chief
David Miyahira
Enforcement Branch Chief
Wayne Kinoshita
Tax Services & Processing Division Chief
Kenneth Murayama
Taxpayer Services Branch
Lawrence Nakano
Document Processing Branch
Richard Yokota
Revenue Accounting Branch
Warren Higashi

SECOND TAXATION DISTRICT

Islands of Maui, Molokai, and Lanai



Office: 54 South High Street
P.O. Box 1169
Wailuku, Maui 96793

Effective December 12, 1981:
Audit Branch
James Horikawa
Enforcement Branch
Stanley Ching

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THIRD TAXATION DISTRICT

Island of Hawaii

Office: 75 Aupuni Street
P.O. Box 1377
Hilo, Hawaii 96720

Effective December 12, 1981:
District Tax Administrator
Sanford Yanagi
Audit Branch
Ronald Yabe
Enforcement Branch
Wendell Serrao

FOURTH TAXATION DISTRICT

Islands of Kauai and Niihau

Office: 3060 Eiwa Street
P.O. Box 1689
Lihue, Kauai 96766

Effective December 12, 1981:
District Tax Administrator
Thomas Nishimitsu
Audit Branch
Ernest Balderas
Enforcement Branch
Helen Teraoka

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TAX LITIGATION

BOARDS OF REVIEW

The Oahu Board of Review started the year with 23 pending net income and general excise tax appeals. Ten new appeals were filed. The Board settled 4 appeals in favor of the State and one appeal was withdrawn. By year's end, 28 appeals were still outstanding, 22 net income tax appeals and 6 general excise tax appeals.

In the Maui District, there were 7 net income tax appeals and 12 general excise tax appeals. Two new appeals were filed. Since the Maui Board of Review did not conduct any hearings on net income and general excise taxes during fiscal year 1982, 8 net income tax appeals and 13 general excise tax appeals were carried forward to fiscal 1983.

In the Hawaii District, there was 19 net income tax appeals and 12 general excise tax appeals pending at the start of the year. Seven new net income tax appeals were filed. Since the Hawaii Board of Review did not conduct any hearings on net income and general excise taxes during the fiscal year 1982, 26 net income tax appeals and 2 general excise tax appeals were carried forward to fiscal 1983.

In the Kauai District, there were no net income and general excise tax appeals pending at the beginning of the fiscal year. No new appeals were filed during the year.

TAX APPEAL COURT

Decisions on 12 cases were rendered by the Tax Appeal Court. Summarized below are some of the major cases heard by the Court.

Photo Management, Inc. *Decided on 9/10/81*

The Taxpayer had an exclusive contract with the State to provide photographic services at the Honolulu International Airport. Whenever travel agencies desired to have photographs taken of incoming tourists, the agencies would initiate their requests by contacting a camera shop such as Island Camera who then would contact the Taxpayer. The Taxpayer would take the pictures, process the film and make prints of each photograph taken. The photos would then be delivered to the camera shop. Thereafter, at an orientation session, the pictures would be displayed and the tourists are given an opportunity to see the pictures and to purchase them if desired. Additional prints may be made through the camera shop. The Taxpayer charged for this service on a per photo basis. The camera shop, likewise, sold the pictures on a per photo basis. Additional taxes were assessed based upon the Director's determination the Taxpayer was involved in performing a service, not intermediary services as reported by the Taxpayer. Upon filing its appeal, the Taxpayer abandoned its intermediary services argument and contended it was engaged in the sale of tangible property. The Supreme Court affirmed the Tax Appeal Court's determination the Taxpayer was involved in the sale of tangible property, accordingly, it should be taxed at the wholesale rate.

Frank Fasi, City and County of Honolulu *Decided on 9/21/81*

The Court reversed the Tax Appeal Court's determination the operating and management agreement between the State and Apcoa, Inc., constituted a long term agreement for commercial purposes, accordingly, the parking structure and facilities at the Honolulu International Airport are properly subject to real property taxation. The Supreme Court, in reversing, held Apcoa did not have a sufficient property interest in the parking facilities to be deemed an "owner" within the purview of the real property tax law. Exemptions are to be construed in favor of the taxpayer where the language creating the tax liability is ambiguous.

Scott McCormac, Vari McKinley and Maytor H. McKinley, Jr. *Decided on 1/15/82*

The case involved an assessment of income taxes to the beneficiaries of a trust who were all non-residents. The beneficiary taxpayers were shareholders of a corporation engaged in the business of selling funeral plans. Prior to its dissolution, the corporation entered into a clearing trust agreement by which the funds for the plan were administered. Upon dissolution of the corporation, each shareholder surrendered his stock in exchange for a pro rata interest in the trust. Income earned by the trust were derived from investments in intangibles such as treasury bills, stocks and bank certificates. Income taxes were assessed to the beneficiaries of the trust notwithstanding they were all non-residents and that the income was derived from intangibles. The Court affirmed the Tax Appeal Court's determination that the intangibles acquired a business situs in Hawaii. Accordingly, the income is derived from sources within this State. The taxes were, therefore, properly assessed to the Taxpayer beneficiaries.

Hawaii Hochi, Ltd. *Decided on 3/17/82*

Taxpayer Hawaii Hochi printed the "This Week" publication for Visitor Publications, Inc. The publication is distributed by Visitor to the public free of charge. The publication contains mostly tourist oriented information and also contains paid advertisements. Visitor paid the 4% general excise tax upon the advertising revenues. The Taxpayer paid general excise taxes at the lower one-half percent rate alleging it sold the publication to Visitor for purposes of resale, accordingly, is properly to be taxed as a wholesaler. The Court affirmed the Tax Appeal Court's determination the publication was not sold by Visitor but distributed free to the public. Thus, the Director properly determined the sale of the publication to Visitor was made at the retail level. It also affirmed the Tax Court's determination there were no intermediary services involved inasmuch as the Taxpayer is deemed a manufacturer engaged in the sale of tangible property.

Aloha Airlines and Hawaiian Airlines *Decided on 6/23/82*

The Court affirmed the assessment of public service taxes imposed by HRS Chapter 239. The Taxpayers contended the tax is unconstitutional because it violated the Commerce Clause of the United States Constitution and that it contravened a federal statute, 49 U.S.C. Sec. 1513(b) thereby resulting in a violation of the federal Supremacy Clause. The federal court prohibits the states from imposing and collecting any tax, fee, head charge, directly or indirectly, upon persons traveling by air in interstate commerce or upon the gross receipts derived therefrom. The Act, however, permitted the States to impose property taxes, net income taxes, franchise taxes and sales or use taxes on the sale of goods or services. The Court affirmed the assessments and held the United States Supreme Court has accorded the States a wide latitude in the taxation of interstate commerce activities and concluded there was neither violation of the Commerce Clause nor contravention of the federal Supremacy Clause. The dissent would invalidate the assessment as constituting a tax upon the sale of air transportation or upon the gross receipts derived therefrom. The matter is under appeal to the United States Supreme Court.

Pacific Machinery, Inc. *Decided on 6/30/82*

The Court affirmed the Tax Appeal Court's determination the assessment of aditional general excise taxes for the furnishing of advertising services to be improper. The Taxpayer entered into a cooperative advertising agreement by which it agreed to advertise products manufactured by Caterpillar Tractor Company. Caterpillar agreed to pay 50% of the cost of services or property furnished by third persons in the preparation of the advertising material. Payment was contingent upon approval by Caterpillar of the advertising material. The Court determined the invoice to Caterpillar did not include any costs for overhead, salaries or other expenses or profit incurred by the Taxpayer. Also, that the payments did not include any compensation for services rendered by the Taxpayer in the advertising of Caterpillar products. The Court affirmed the Tax Appeal Court's determination the amounts received by the Taxpayer constituted exempt reimbursements.

Significant decision in the Tax Appeal Court include the following:

Robert B. Anderson *Decided on 11/27/81*

The Taxpayer filed his appeal from an assessment of income taxes 79 days after the assessment. The Court determined the Taxpayer was too late and dismissed the appeal.

Queen's Medical Center *Decided on 12/2/81*

Assessment of additional general excise taxes were made to the Taxpayer for lease rentals received from doctors leasing office space in the Physician's Office Building and from the parking revenues derived from the new parking structure. The doctors engage in the private practice of medicine although given staff privileges at the Queen's Hospital. Patrons parking in the parking structure do not all visit the hospital but park to visit their private physician. The Tax Appeal Court determined the primary purpose for the construction of the Physician's Office Building and the parking facility was to furnish better, more efficient and cost effective, complete medical care to patients, not to produce income, accordingly, invalidated the assessments and deemed the gross receipts to be exempt income. The matter is being appealed to the Hawaii Supreme Court.

O. W. Limited Partnership *Decided on 2/9/82*

In this case, three separate entities - a limited partnership and two corporations - entered into a joint operating agreement for the operation of the Outrigger West Hotel. By way of the agreement, it is expressly provided that the limited partnership is to receive a stated percentage of the gross revenues received by the operator of the hotel and from the entity that operated the parking facilities. The limited partner, having furnished the building and rooms, paid a stated percentage to the entity operating the hotel as compensation for services rendered but paid nothing to the operator of the parking facilities. The agreement, while detailing the duties and responsibilities of each entity, including a division of the gross receipts, made no provision for the sharing of profits or losses, not any of the elements required by law for the creation of a partnership. In reporting its gross receipts, the limited partnership deducted the amounts it paid to the entity operating the hotel and reported only the net, i.e., for each $100 collected for room rents, the limited partnership paid 25 cents to the operating entity and reported only 75 cents as its gross receipts. Assessment of additional general excise taxes were made upon the 25 cents. The Taxpayer claimed the hotel is operated as a joint venture, accordingly, should be taxed as an entity and not as separate entities. The Tax Court upheld the Taxpayer's arguments and declared the assessments invalid. The matter is under appeal in the Hawaii Supreme Court.

Ron Graybeal and Kona Light Center *Decided on 3/16/82*

The Taxpayer leased lands to the Kona Light Center, a purportedly religious entity. It claimed exemption from the real property tax pursuant to HRS Section 246-32. The exemption was denied upon the grounds that the property was not used actually and exclusively for nonprofit purposes because the Center paid rents to the Taxpayer and the rental payments constituted a quid pro quo for use of the facilities.

LEGISLATION

In its continuing efforts to conform Hawaii's Tax Laws to the Internal Revenue Code, the 1982 State Legislature passed Act 25. With certain exceptions, this Act incorporates the Internal Revenue Code as of December 31, 1981.

Other tax bills enacted are summarized below:

Act

22 Income Tax Law: Repeals former income tax rates and schedules for individuals. Provides new tax rates and schedules based on State zero-bracket amounts instead of former ten percent standard deduction. Provides a new tax rate schedule for estates and trusts.

23 Income Tax Law: Amends the law to permit taxpayers to compute additional withholding allowances based on zero-bracket amounts. Permits rounding up to one additional exemption when computation results in remainder of one-half or more exemption. Permits Department of Taxation to adopt federal rules relating to withholding provisions.

43 Inheritance and Estate Taxes Law: Amends Section 236-27 to require that a completed inheritance tax return, with payment rather than merely inheritance information, be filed by the personal representative within eighteen months after the death of the decedent.

65 Amends Section 281-45 to provide that applicants for a liquor license receive a federal tax clearance as well as the State tax clearance required by Section 231-28.

72 Inheritance and Estate Taxes Law: When the beneficial interest in property or income passes to the decedent's surviving spouse, the amount of the inheritance tax exemption is increased from $100,000 to $300,000. The beneficial interest exemption is increased from $50,000 to $150,000 when it passes to a direct line beneficiary.

84 Amends Section 577-7 to provide that a parent or guardian shall not be required to pay the expenses of a child in connection with a private school or a college or university to the extent that such expenses are paid from income or principal of a trust which the child has a beneficial interest.

88 Administration of Taxes: Amends Section 231-13 to permit the Director of Taxation to make an agreement with a bonded collection agency to collect delinquent taxes.

92 General Excise Tax Law, Taxation of Banks and Other Financial Corporations, and Income Tax Law: Amends law to provide that federally certified development companies will be taxed under the provisions of Chapter 241 and exempted under Chapters 237 and 235, General Excise Tax and Income Tax Laws, respectively.

118 Provides that country housing projects shall have the same exemption from general excise tax as the Hawaii Housing Authority under Chapter 359G.

120 Inheritance and Estate Taxes Law: Permits the State to impose the State inheritance tax upon the value of a beneficial interest in a land trust of a nonresident if the property is located within the State.

132 Income Tax Law: Amends Act 231, SLH 1981, to delete the requirement that a resident taxpayer be physically present in the State for more than nine months to qualify for the general income tax credit of $100.

134 Income Tax Law: Provides a $25 income tax credit for taxpayers who purchase one or more child passenger restraint systems in the tax year.

189 General Excise Tax Law: Deletes the provision that capital goods for leasing purposes must have a three-year depreciable life.

199 Administration of Taxes: Provides that the State may reduce a tax refund by a setoff of any valid debt due and owing the State.

253 General Excise Tax: Provides that sales to a licensed agricultural or aquacultural producer or cooperative association of materials or commodities to be incorporated into a finished or saleable product shall be taxed at one-half of one percent.

265 Income Tax Law: Provides a $25 general income tax credit per qualified exemption for the taxable year 1982.

285 Income Tax Law: Provides that taxpayers may deduct from gross income in the taxable year an amount not to exceed $5,000 paid into an individual housing account.

289 Inheritance Tax Law: Deletes the provision that a tax clearance from the Director of Taxation is required to transfer securities registered in the name of a nonresident decedent.

INCOME ASSESSMENT AND AUDIT

INDIVIDUAL INCOME TAX

The net individual income taxes collected this year were $283.0 million, a decline of 15.4 percent from $334.6 million collected last year. There was a moderate rise of 7.4 percent for withholding tax on wages, from $330.8 million in FY 1981 to $335.3 million in FY 1982. Declaration of estimated taxes also rose slightly by 1.8 percent, to $41.4 million.

Table 1
TAXES PAID BY INDIVIDUALS
(In Thousands of Dollars)

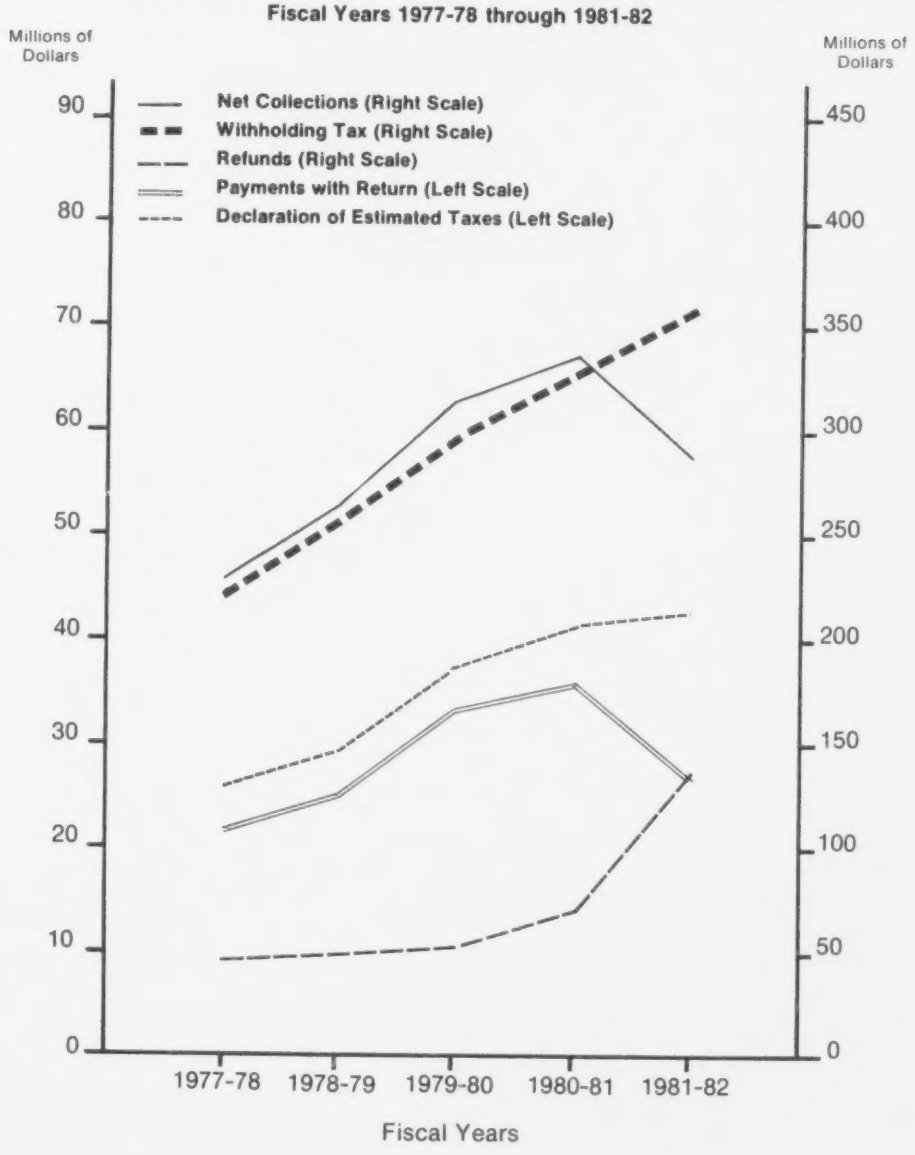
			Av. Annual Change (Percent)	
	FY 1982	FY 1981	1981-82	1977-82
Declaration of Estimated Taxes	$ 41,356	$ 40,623	1.8	13.3
Payment with Return	26,452	33,585	-21.2	8.7
Withholding Tax on Wages	355,330	330,812	7.4	11.8
Sub-total	$423,138	$405,020	4.5	11.7
Refunds	140,138	70,450	98.9	31.4
Net	$283,000	$334,570	-15.4	7.6

Tax payments made at the time of filing dropped significantly, from $33.6 million in FY 1981 to $26.5 million in FY 1982, a decline of 21.2 percent. At the same time, refunds soared 98.9 percent, from $70.4 million a year ago to $140.1 million in FY 1982. This may, to a large extent, be the result of the one-time $100 general income tax credit given to all residents in the State. The 11.9 percent rise in the number of refunds processed from, 340,428 to 381,031, seems to bear this out.

This general income tax credit was enacted by Act 231 of the 1981 sessions of the Hawaii State Legislature which implemented the provisions of Article VII, Section 6 of Hawaii State Constitution, which stated that, "Whenever the state general fund balance at the close of each of two successive fiscal years exceeds five percent of general fund revenues for each of the two fiscal years, the Legislature in the next regular session shall provide for a tax refund or tax credit to the taxpayers of the State, as provided by law."

COMPONENTS OF THE INDIVIDUAL INCOME TAX

Fiscal Years 1977-78 through 1981-82



"Components of the Individual Income Tax"
(In Millions)

Fiscal Year	Withholding Tax	Declaration of Est. Taxes	Payment with Return	Refunds	Net Collection
1977-78	$225.8	$25.3	$21.1	$ 45.0	$227.2
1978-79	260.7	29.2	24.0	49.3	264.6
1979-80	296.0	36.2	32.1	52.7	311.6
1980-81	330.8	40.6	33.6	70.4	334.6
1981-82	355.3	41.4	26.5	140.1	283.0

CORPORATE INCOME TAX

Reflective of the nationwide economic slump, net corporate income tax revenues took a dip for the first time since FY 1977. Collections dropped from $47.0 million in FY 1981 to $39.3 million in FY 1982, a decline of 16.3 percent. Declaration of estimated taxes decreased 14.3 percent, from $43.7 million to $37.5 million, while payments with returns declined 6.5 percent from $6.2 million to $5.9 million.

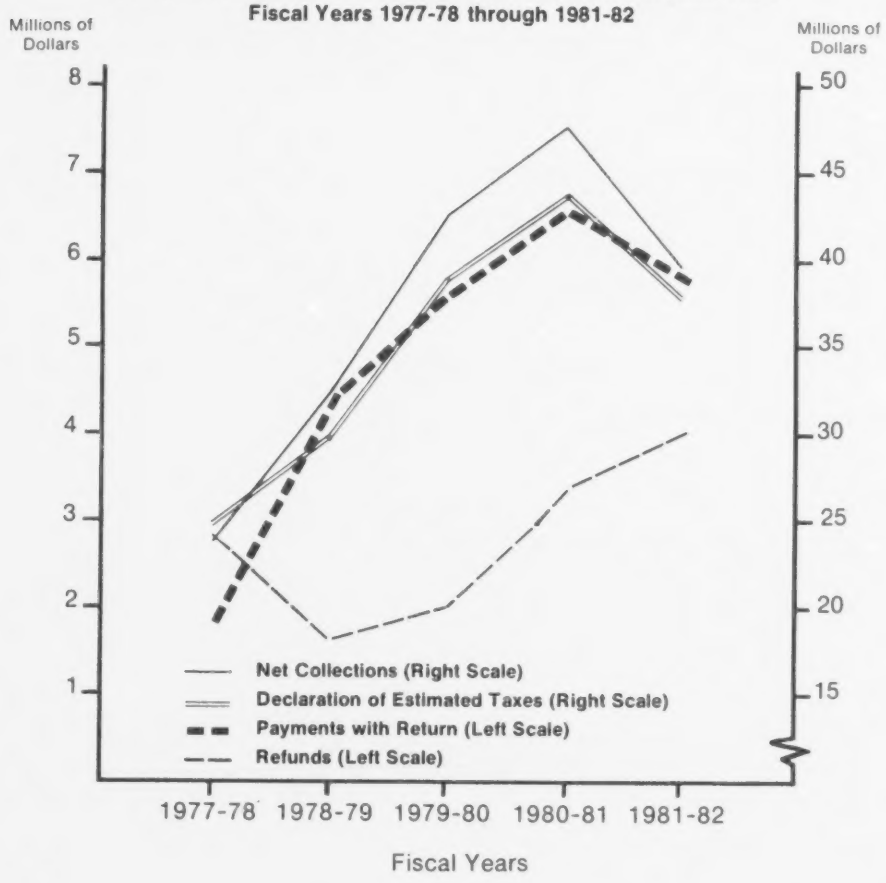
Table 2
TAXES PAID BY CORPORATIONS
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
	FY 1982	FY 1981	1981-82	1977-82
Declaration of Estimated Taxes	$37,481	$43.723	-14.3	13.2
Payment with Return	5,860	6,269	- 6.5	26.0
Sub-Total	$43,341	$49,992	-13.3	13.3
Refunds	4,028	3,037	32.6	22.0
Net	$39,313	$46,955	-16.3	13.2

As with the individual income tax, refunds rose significantly for corporate income taxes. There was a 34.8 percent increase in the number of refunds processed, from 1,149 in FY 1981 to 1,549 in FY 1982; while in dollar amounts the increase was 32.6 percent, from $3.0 million to $4.0 million.

COMPONENTS OF THE CORPORATE INCOME TAX

Fiscal Years 1977-78 through 1981-82



"Components of the Corporate Income Tax"
(In Millions)

Fiscal Year	Declaration of Est. Taxes	Payment with Return	Refunds	Net Collection
1977-78	$24.5	$1.8	$2.4	$23.8
1978-79	29.9	4.2	1.8	32.3
1979-80	38.8	5.7	2.0	42.4
1980-81	43.7	6.3	3.4	47.0
1981-82	37.5	5.9	4.0	39.3

GENERAL EXCISE AND USE TAXES

There was a 5.0 percent increase in the collection of the general excise and use taxes, from $548.9 million in FY 1981 to $576.9 million in FY 1982. In light of the 6.6 percent inflation rate for the period June 1981 to June 1982 (according to the Consumer Price Index), the increase is negligible, if it is to be considered an increase at all.

More than half of the state's general fund tax revenue was derived from this source, accounting for 56.1 percent of the total. This is a moderate increase over the previous year when general excise and use taxes accounted for 52.9 percent of the total general fund tax revenues.

The breakdown by type of business activity for fiscal years 1981 and 1982 is shown in Table 3.

Table 3
GENERAL EXCISE AND USE TAX BASE AND TAXES
FOR THE FISCAL YEARS ENDING JUNE 30, 1982 & 1981
(In Thousands of Dollars)

SOURCE OF REVENUE	Rate	1982	1981	% Change
TAX BASE				
Retailing		$ 6,841,588	$ 6,339,688	7.9
Services		1,840,105	1,807,337	1.8
Contracting		1,503,538	1,576,721	- 4.6
Hotel Rentals		803,155	733,206	9.5
All Other Rentals		1,328,215	1,205,036	1.1
All Others (4%)		1,287,853	1,160,318	11.0
Sub-Total		$13,604,454	$12,822,306	6.1
Sugar Processing		$ 303,430	$ 577,533	-47.5
Pineapple Canning		184,096	184,611	- 0.3
Producing		178,887	169,052	5.8
Manufacturing		591,001	629,518	- 6.1
Wholesaling[1]		3,256,644	3,334,447	- 2.3
Use (½%)		1,895,980	2,186,839	-13.3
All Others (½%)		61,659	55,580	10.9
Insurance Commissions		262,226	241,903	8.4
Sub-Total		$ 6,733,923	$ 7,379,483	- 8.8
TOTAL - ALL ACTIVITIES		$20,338,377	$20,201,789	0.7
TAX				
Retailing	4%	$ 273,663	$ 253,588	7.9
Services	4%	73,604	72,293	1.8
Contracting	4%	60,141	63,069	- 4.6
Hotel Rentals	4%	32,126	29,328	9.5
All Other Rentals	4%	53,129	48,201	10.2
All Others	4%	51,515	46,413	11.0
Sub-Total		$ 544,178	$ 512,892	6.2
Sugar Processing	½%	$ 1,517	$ 2,888	-47.5
Pineapple Canning	½%	921	923	- 0.2
Producing	½%	895	845	5.9
Manufacturing	½%	2,955	3,148	- 6.1
Wholesaling[1]	½%	16,283	16,672	- 2.3
Use	½%	9,480	10,934	-13.3
All Others	½%	308	278	10.8
Insurance Commissions	.15%	393	363	8.3
Sub-Total		$ 32,752	$ 36,051	- 9.2
TOTAL - ALL ACTIVITIES		$ 576,930	$ 548,943	5.1
Adjustments		(4)	(29)	
Penalty & Interest				
GRAND TOTAL		$ 576,926	$ 548,914	5.1

[1]*For fiscal 1982 and 1981, blind, deaf and disabled (BDD) category was combined with wholesaling.*

INHERITANCE AND ESTATE TAXES

The number of estates settled in FY 1982 rose by 3.3 percent to 9,854 from 9,536 for the previous year. The number of taxable estates climbed from 1,057 in FY 1981 to 1,132 in FY 1982, an increase of 7.1 percent. Inheritance taxes paid by beneficiaries amounted to $4.9 million, up 9.7 percent from the year before.

The estate tax, which is the difference between the maximum federal state death tax credit and the amount of state inheritance tax paid, increased by 127.0 percent, from $74,000 to $168,000. The variance between the two years is largely the result of the settlement of several large estates.

Table 4
INHERITANCE AND ESTATE TAXES
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
	FY 1982	FY 1981	1981-82	1977-82
Inheritance Tax	$4,914	$4,480	9.7	4.4
Estate Tax	168	74	127.0	54.4
Sub-Total	$5,082	$4,554	11.6	4.7
Penalty & Interest	24	35	(31.4)	(6.0)
TOTAL	$5,106	$4,589	11.3	4.5

PUBLIC SERVICE COMPANY TAX

Tax revenue from public service companies amounted to $57.0 million in FY 1982. This was an increase of 13.6 percent from last year when $50.2 million were collected. There was a significant rise of 25.9 percent in revenues derived from public utilities. On the other hand, there was a significant decline of 27.7 percent in revenues collected from motor carriers and contract carriers.

There has been no payments of the public service company tax made by the airlines for the past two fiscal years. The airlines are withholding tax payments based on the interpretation of a federal law that prohibits states from collecting or levying any tax directly or indirectly on the gross receipts derived from the sale of air transportation. This matter was taken to the Tax Appeal Court, which ruled in favor of the Tax Department in June of 1978. The airlines appealed the decision to the Hawaii State Supreme Court, which ruled in favor of the Tax Department in June of 1982. The case is presently on appeal to the U.S. Supreme Court. The airlines are, however, continuing to make payments on other activities not related to passenger revenue.

Table 5
PUBLIC SERVICE COMPANY TAX
(In Thousands of Dollars)

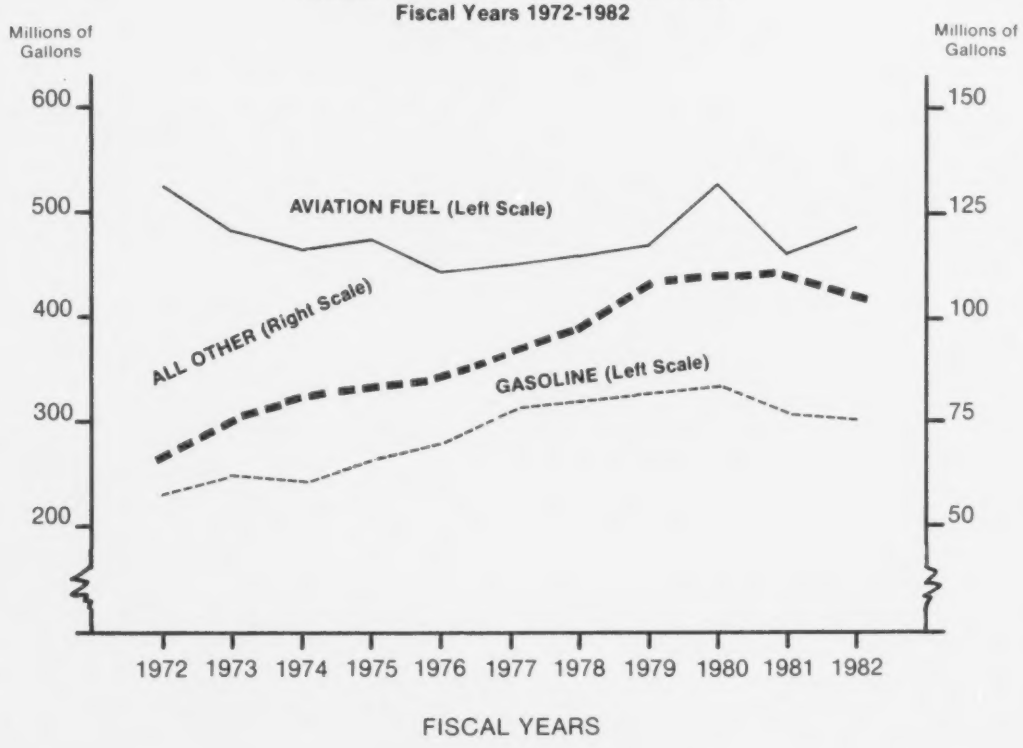
			Av. Annual Change (Percent)	
	FY 1982	FY 1981	1981-82	1977-82
Public Utilities	$48,629	$38,633	25.9	19.1
MC & CC	8,240	11,390	(27.7)	7.8
Airlines	—	—	—	(25.9)
Sub-Total	$56,869	$50,023	13.7	14.5
Penalty & Interest	118	127	(7.1)	19.0
TOTAL	$56,987	$50,150	13.6	14.5

FUEL TAXES

FY 1982 saw a continuation of the decline in gasoline consumption which began in FY 1980. Statewide gasoline consumption dropped 0.9 percent to 304,816 gallons, as compared with 307,645 gallons consumed the year before. The rising cost of fuel, increased number of fuel-efficient cars on the road and a general attitude of austerity may be among the leading factors that accounted for this decline in gasoline use.

The downward trend applied to all fuel consumption with the exceptions of small boat diesel oil and aviation fuel, which showed slight increases of 2.5 percent and 2.7 percent, respectively.

TRENDS IN FUEL CONSUMPTION
Fiscal Years 1972-1982



"Trends in Fuel Consumption"
(In Millions)

Year	Gasoline	Aviation	All Other
1972	255.7	510.4	72.1
1973	273.0	493.9	85.4
1974	271.0	479.0	90.6
1975	282.4	483.1	92.3
1976	287.1	450.6	95.9
1977	306.6	464.2	102.6
1978	316.6	476.1	109.4
1979	328.3	486.1	124.0
1980	317.8	520.2	128.3
1981	307.6	479.6	132.3
1982	304.8	492.4	111.3

Table 6
GALLONS OF FUEL CONSUMED
(In Thousands of Gallons)

	FY 1982	FY 1981	Av. Annual Change (Percent) 1981-82	1977-82
Gasoline	304,816	307,645	- 0.9	- 0.1
Diesel Oil - Non-Highway	90,206	109,105	-17.3	2.1
Diesel Oil - Highway	15,763	17,553	-10.2	2.7
Liq. Petro. Gas - Off Highway	2,442	2,515	- 2.9	4.6
Liq. Petro. Gas - Highway	1,047	1,184	-11.6	- 5.3
Small Boats - Gasoline	338	398	-15.1	- 1.5
Small Boats - Diesel Oil	1,555	1,517	2.5	14.2
Aviation Fuel	492,380	479,619	2.7	14.4
TOTAL	908,547	919,536	- 1.2	0.9

There was a slight decline of 1.3 percent in the state highway fund, from $36.9 million in FY 1981 to $36.4 million in FY 1982. A similar decline occurred with the county highway funds as it dropped 0.4 percent, from $19.5 million to $19.4 million.

Table 7
ALLOCATION OF FUEL TAXES
(In Thousands of Dollars)

STATE HIGHWAY FUND:	FY 1982	FY 1981	Difference
Gasoline	$25,583	$25,826	$(243)
Diesel Oil - Non-Highway Use	911	1,098	(187)
Diesel Oil - Highway Use	1,330	1,481	(151)
Liq. Petro. Gas - Off Highway Use	24	25	(1)
Liq. Petro. Gas - Highway Use	62	70	(8)
Sub-Total	$27,910	$28,500	$(590)
Motor Vehicle Weight Tax/Reg. Fees	8,479	8,373	(106)
TOTAL	$36,389	$36,873	$(484)
COUNTY HIGHWAY FUNDS:			
City & County of Honolulu	$14,898	$15,248	$(350)
County of Maui	1,818	1,583	235
County of Hawaii	2,015	2,012	3
County of Kauai	652	612	40
TOTAL	$19,383	$19,455	$ (72)
BOATING SPECIAL FUND	$ 357	$ 362	$ (5)
STATE AIRPORT FUND:			
Aviation Fuel	$ 4,923	$ 4,796	$ 126

OTHER TAXES

The sharp decline of 32.8 percent in tax revenues from banks and other financial corporations is yet another indication of the struggling economy. Particularly hard hit is the state's real estate business. The conveyance tax, which is imposed, with few exceptions, on all documents transferring ownership or interest in any real property, is the best indicator of this trend. Collection of the conveyance tax dropped 27.3 percent, from $2.0 million in FY 1981 to $1.4 million in FY 1982.

Table 8
MISCELLANEOUS TAXES
(In Thousands of Dollars)

TYPE OF TAX	FY 1982	FY 1981	Av. Annual Change (Percent) 1981-82	1977-82
Banks & Other Financial Corp.	$ 3,888	$ 5,790	-32.8	- 0.5
Conveyance	1,446	1,990	-27.3	14.2
Empl. Security Contributions	58,324	58,755	- 0.7	- 0.4
Insurance Premiums	27,757	23,973	15.8	15.9
Liquor & Permits	7,701	6.964	10.6	8.9
Tobacco & Licenses	14,011	13,799	1.5	6.4
All Others	353	371	- 4.9	2.3
Sub-Total	$113,480	$111,642	1.6	4.6
Motor Vehicle Weight/Reg. Fees	8,479	8.373	1.3	—
TOTAL	$121,959	$120,015	1.6	1.9

COLLECTION AND ACCOUNTING OF TAXES

TAX COLLECTIONS

The amount of taxes collected by the various agencies of the state and county government totaled $1,136.5 million. Of this amount $1,098.7 million was collected by the Department of Taxation. The Department of Land and Natural Resources collected $1.4 million in conveyance tax, while $27.8 million in insurance premium tax was collected by the Department of Regulatory Agencies (renamed the Department of Commerce and Consumer Affairs in June of 1982). The state motor vehicle weight tax of $8.5 million was collected by the counties and turned over to the Department of Budget and Finance.

Tax collections accuring to the State Genera! Fund amounted to $1,000.0 million, or 88.0 percent of the total. The counties received $20.0 million, or 1.7 percent of the total. The remaining 10.3 percent, or $116.8 million, accrued to the state special funds, which include the highway, airport, boating, unemployment trust and election campaign funds. The dramatic decline in the counties' share of the distribution, from 17.2 percent in FY 1981 to 1.7 percent in FY 1982 is the result of the transfer of the collection of the real property tax from the state to the counties. This means that counties now take in this revenue source directly.

Table 9
DISTRIBU'1 ION OF COLLECTIONS

	FY 1982 Amount Collected	FY 1982 % of Total	FY 1981 Amount Collected	FY 1981 % of Total
State General Fund	$ 999,663,074	88.0	$1,037,914.371	75.5
State Special Funds	116,822,065	10.3	100,937,675	7.3
County Funds	20,044,042	1.7	236,711,675	17.2
TOTAL	$1,136,529,181	100.0	$1,375,563,721	100.0

There was a drop in the net tax collection for each of the four counties. The biggest decline occurred on Kauai, where tax revenues dropped 40.2 percent, while Oahu witnessed the smallest decline of 15.2 percent.

Table 10
TAX COLLECTIONS
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
OAHU	FY 1982	FY 1981	1981-82	1977-82
Gross Collections*	$1,118,041	$1,233,758	- 9.4	6.9
Less Appeals, Payments under Protest, Refunds, TDI	141,336	82,313	71.7	27.6
Net Collection by Department	$ 976,705	$1,151,445	- 15.2	5.5
MAUI				
Gross Collections*	$ 65,945	$ 82,290	- 19.9	7.6
Less Appeals, Payments under Protest, Refunds, TDI	16,965	8,579	97.8	45.0
Net Collection by Department	$ 48,980	$ 73,711	- 33.6	3.9
HAWAII				
Gross Collections*	$ 70,340	$ 90,791	- 22.5	5.3
Less Appeals, Payments under Protest, Refunds, TDI	18,438	10,247	79.9	36.9
Net Collection by Department	$ 51,902	$ 80,544	35.6	1.8
KAUAI				
Gross Collections*	$ 28,346	$ 38,234	- 25.9	5.1
Less Appeals, Payments under Protest, Refunds, TDI	7,086	2,706	161.9	48.9
Net Collection by Department	$ 21,260	$ 35,528	- 40.2	2.2

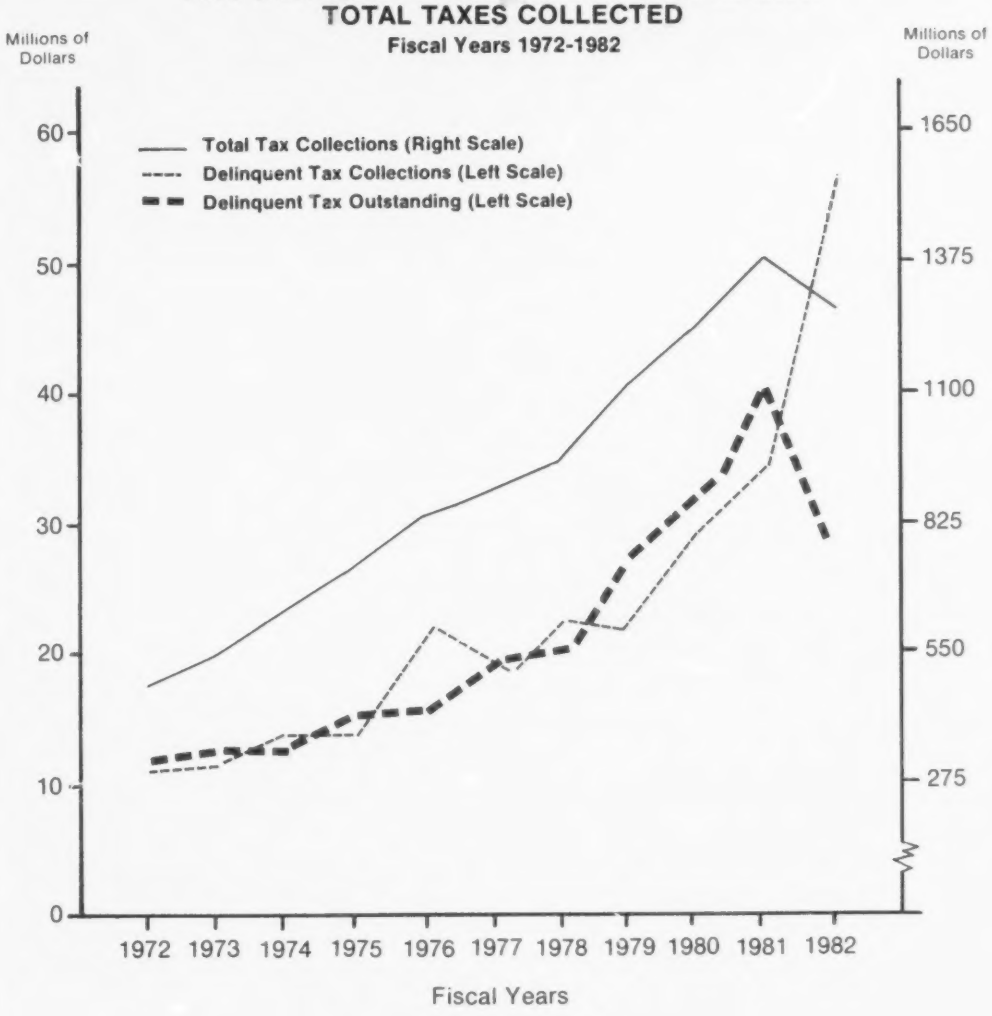
**Excludes conveyance, insurance premium, and motor vehicle weight taxes.*

DELINQUENT TAXES

FY 1982 began with 37,115 delinquent accounts. During the year, 53,259 new referrals of delinquent accounts came in, an increase of 40.0 percent from FY 1981 when 38,093 new referrals were added. Of this sum, (90,374), 64,654 accounts were closed during the year, up 115.0 percent from last year, when 30,076 accounts were closed. This left a balance of 25,720 delinquent accounts, a drop of 31.0 percent from the previous year, when 37,115 delinquent accounts remained outstanding. At the same time, however, the dollar amount for delinquent accounts in FY 1982 rose significantly from the previous year. Outstanding accounts at the end of FY 1981 amounted to $42.0 million, while the amount outstanding at the end of FY 1982 was $58.1 million, an increase of 38.4 percent. This apparent paradox is the result of two key factors. First, as a result of new strategies and new methods of processing delinquent accounts, more cases were closed during this fiscal year. Secondly, however, due to the slumping economy, the average amount per individual delinquent account rose significantly. Also, during periods of unstable economic conditions, taxpayers tend to satisfy other creditors first, since the interest rates assessed on these accounts are higher than those imposed by the Tax Department. The result was a lower number of outstanding delinquent accounts but a higher dollar amount.

COMPARISON OF DELINQUENT TAX COLLECTIONS AND DELINQUENT TAXES OUTSTANDING WITH TOTAL TAXES COLLECTED

Fiscal Years 1972-1982



"Comparison of Delinquent Tax Collections"

(In Millions)

Year	Total Tax Collections	Delinquent Tax Collections	Delinquent Taxes Outstanding
1972	$ 510.5	$11.2	$11.8
1973	570.0	12.2	13.1
1974	648.9	14.8	13.4
1975	741.6	15.1	16.0
1976	847.8	20.8	16.6
1977	902.9	19.4	20.1
1978	989.5	23.6	22.7
1979	1,132.1	22.9	29.9
1980	1,260.7	31.7	34.8
1981	1,375.6	36.6	42.0
1982	1,136.5	28.6	58.1

BRIEF SUMMARY OF HAWAII'S TAX SYSTEM

The high degree of centralization in Hawaii's tax structure enables the state government to utilize revenue sources in an effective and comprehensive manner. The general excise tax continues to be the major source of the state's general fund tax revenue. It is adequately complimented by a graduated individual income tax.

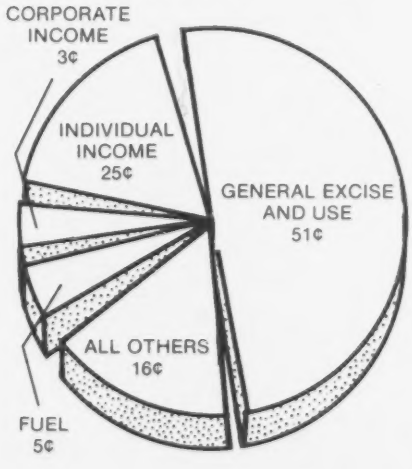
An outstanding characteristic of the state's tax structure is its use of income tax credits. In existence since 1965, these credits were designed to provide relief to low-income taxpayers. Over the years, changes were made to simplify both the filing process and the administration of the tax credits.

Under the present law, there is an excise tax credit which may be claimed by resident taxpayers with adjusted gross income under $20,000, if they are not eligible to be claimed as a dependent by another taxpayer. In 1980, the credit amounts were increased, ranging from $8 per qualified exemption for those with adjusted gross income of $14,000-$19,999 to $48 for those with adjusted gross income under $5,000, with a double credit allowed for those age 65 and over. In addition, the state provides tax credits to meet the special needs of our citizens and to promote certain safety and conservation practices. These include tax credits for low-income renters, child care, solar energy devices, heater insulation, child passenger restraint systems and fuel for commercial fishermen.

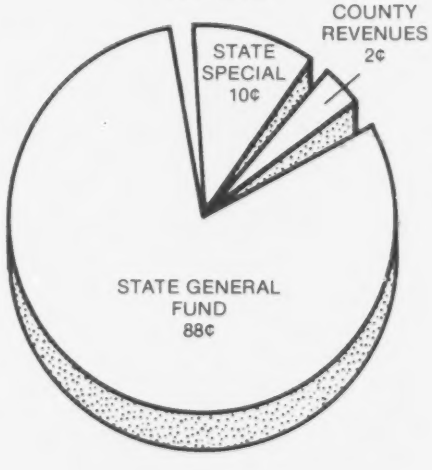
During the past tax year a one-time $100 general income tax credit was given to all residents of the State of Hawaii. This credit, which is discussed in detail in the Income Assessment & Audit section, came at an opportune time, as it increased the number of people receiving refunds at a time when many were struggling from the effects of the slumping economy.

Hawaii has fifteen separate tax laws of which twelve are administered by the state. The remaining three, the motor vehicle weight tax, the public utility franchise tax, and the real property tax, are administered by the counties. Previously, the real property tax law was administered by the state, with the revenue from this source accruing to the counties. As of July 1, 1981, the counties took over all of the real property functions. Administration of the state and county motor vehicle weight taxes is vested in the counties with the revenue accruing to the state and county highway funds. Revenues from ten of the state-administered taxes go into the state's general fund and are used to provide the various services of the state government, including the educational system which is a state function in Hawaii. Although the fuel tax is administered by the state, it is a source of revenue for both state and county governments. The employment security tax is a dedicated tax, used exclusively to provide benefits to unemployed workers.

SOURCE OF THE TAX DOLLAR
1981-1982



DISTRIBUTION OF THE TAX DOLLAR
1981-1982



STATE GENERAL FUND

GENERAL EXCISE TAX: The general excise tax is a tax on the privilege of doing business in the State as measured by the gross proceeds of business transactions. Hawaii is one of the few states having a gross receipts tax. This tax applies, with few exceptions, to all levels of business activities, including not only the consumer level, but also the producing, manufacturing, and wholesaling activities. The significant difference between Hawaii's general excise tax as compared to a sales tax is that the incidence of the tax is on the seller rather than on the purchaser. This tax applies to receipts from the sale of tangible personal property, services performed, and income from the investment of business capital, in such forms as interest, rentals, royalties, fees, etc.

The consumer level rate is 4%; with the rate on producing, manufacturing, and wholesaling at ½ of 1%. Insurance solicitors and agents have a preferential rate of .15%.

USE TAX: Under the use tax law, an excise tax is levied on the import or purchase of tangible personal property from an unlicensed seller for use or for resale at retail in the state. If the import is for resale, it carries the wholesaling rate of ½ of 1%; otherwise, the rate is 4%, the same as for retailing.

INCOME TAXES: The Income Tax Law of 1957 adopted, with certain exceptions, the provisions of the Internal Revenue Code in the determination of gross income, adjusted gross income, and taxable income. Some of the significant exceptions applicable under Hawaii's law are: 1) taxation of cost-of-living allowances received by federal employees in Hawaii; 2) exclusion of pension income; 3) allowance of $7,000 personal exemption for persons who are blind, deaf, or totally disabled; and 4) a deduction, up to $5,000 a year, for an individual housing account.

INHERITANCE AND ESTATE TAXES: These are taxes on the transfer of property at the time of death. In determining the amount of inheritance tax, the law provides certain exemptions and rates, depending on the relationship of the beneficiary to the deceased. The 1982 State Legislature further liberalized the exemptions and modified the tax rates from the liberal revisions of 1977. The exemption for a spouse was increased from $100,000 to $300,000 and for a direct line beneficiary from $50,000 to $150,000. There was no change made for the exemptions for all other beneficiaries, which remains at $5,000.

LIQUOR AND TOBACCO TAXES: These are ad valorem taxes on the wholesale value of liquor and tobacco products. This is quite different from the usual practice on the mainland where liquor is taxed on a gallonage basis, with rates depending on the alcoholic content; and where cigarettes are taxed on the basis of the number in the pack. Hawaii taxes all tobacco products at a rate of 40% of the wholesale value, and liquor at 20% of the wholesale value.

PUBLIC SERVICE COMPANY TAX: This is a tax on public utility business in lieu of general excise and real property taxes. Gross income from passenger fares for transportation between points on a scheduled route by a carrier of passengers is taxed at 5.35%. The rate on all other public utility gross income is based on the ratio of net to gross income. If this ratio is 15% or less, the rate is 5.885%, increasing by .2675% for each 1% increase in ratio of net to gross. The rate for airlines, motor carrier and contract carrier business is 4% of gross income. However, airlines may pay at the rate of 3% if they adopt a fare schedule that is less than one-half of the regular adult fare for students in grades 12 or below traveling in school groups.

BANKS AND OTHER FINANCIAL INSTITUTIONS: A franchise tax in lieu of all other taxes, except real property, is imposed on both national and state banks, building and loan companies, industrial loan companies, and small business investment companies. The tax rate is 11.7% of taxable income measured by net income for the preceding year.

INSURANCE PREMIUM TAX: This is a tax on insurance companies based on premiums received in Hawaii and is in lieu of all taxes, except real property and taxes on the purchase, use or ownership of tangible personal property. This law is administered and the tax collected by the Insurance Commissioner, who is required to report to the Director of Taxation all amounts of taxes collected. The rates are: life insurance - domestic, 1.918% and foreign, 3.197%; surplus lines, 4.68%; ocean marine, .8775% of 1%; and other insurance - domestic, 2.9647% and foreign, 4.284%. These rates are applicable to all premiums and gross underwriting profits received during the calendar year (1979 and thereafter).

CONVEYANCE TAX: This tax is imposed, with certain exceptions, on all deeds, leases, subleases, assignments of lease, agreements of sale, instruments, writings, or other document transferring ownership or interest in any land, tenement, or other realty. The rate of tax is 5¢ on each $100 of actual and full consideration paid with a minimum tax of one dollar on each taxable transaction. The purpose of this law is to acquire selling price data to determine market value which is needed to achieve uniformity in real property tax assessment.

SPECIAL PURPOSE TAXES

FUEL TAXES: The fuel tax is administered and collected by the state, but it is a source of revenue for both state and county governments. The county tax rates on each gallon of gasoline and diesel oil used on the highways are set by the Council of each county. State fuel tax rates are established by the State Legislature. Revenue from this source goes into state and county special funds for use in the construction and maintenance of highways, roads, and airports.

The county tax rates on gasoline and diesel oil used on the highways which were in effect for this year are: 6½¢ for the City and County of Honolulu, 6¢ for the County of Maui, 5¢ for the County of Hawaii, and 4¢ for the County of Kauai. The state rate is 8½¢ for all gasoline usages and diesel oil used on the highways, and 1¢ for diesel and liquefied petroleum gas used off highways. The aviation fuel tax rate is 1¢ per gallon. To encourage the use of liquefied petroleum gas for anti-pollution purposes, the fuel tax on liquefied petroleum gas used on the public highways was reduced to two-thirds of the rates applicable to diesel oil used on the highways for both state and county purposes.

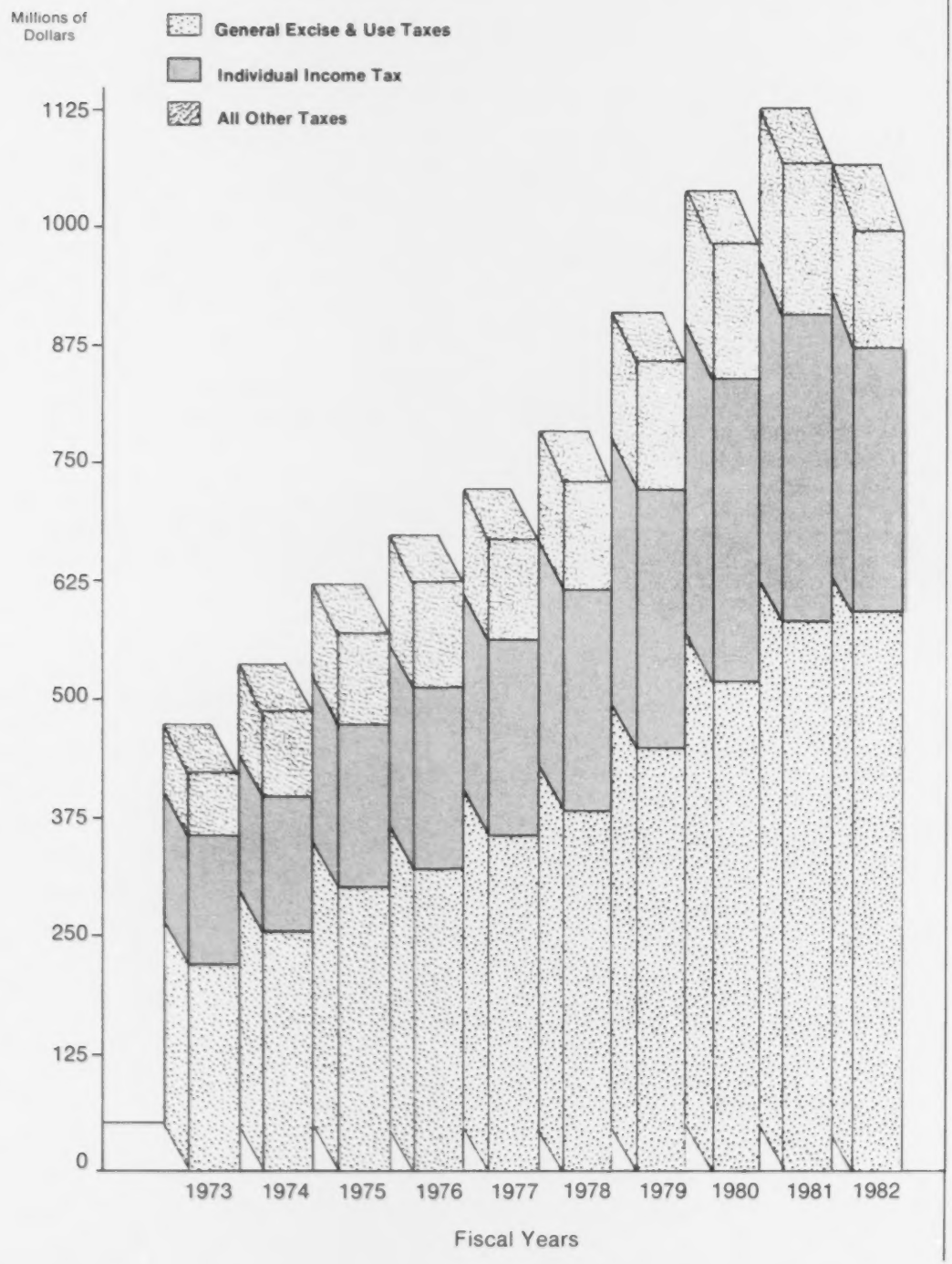
HAWAII EMPLOYMENT SECURITY TAX: The proceeds from this tax go into the unemployment insurance trust fund for the payment of benefits to unemployed workers while they are seeking new jobs. This is a tax on employers and is measured by wages and salaries paid. It is a variable tax rate, ranging from 1.0% to 4.5% based on the employer's past employment record with a minimum rate of .6%. This law is administered by the Department of Labor and Industrial Relations, but the tax is payable to the Director of Taxation.

"Trends in General Fund Tax Revenue, by Source"
(In Millions)

Year	General Excise	Individual Income	Cumulative Total	Grand Total
1973	$210.7	$134.9	$345.6	$ 410.3
1974	244.3	151.7	396.0	472.2
1975	287.2	168.7	455.9	551.2
1976	309.6	184.9	494.5	603.5
1977	341.0	203.0	544.0	648.0
1978	367.3	227.2	594.5	707.4
1979	430.5	264.6	695.1	826.0
1980	498.3	311.4	809.7	947.3
1981	548.9	334.4	883.3	1,037.9
1982	560.4	282.7	843.1	999.7

TRENDS IN GENERAL FUND REVENUE, BY SOURCE

Fiscal Years 1973 through 1982



APPENDIX

Statistical Tables

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Fuel Tax Rates	A-3
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Outline of Hawaii Tax System	A-5

TAX COLLECTIONS

Source of Revenue	FY 1982 Amount Collected	FY 1982 % of Total	FY 1981 Amount Collected	FY 1981 % of Total
Banks — Financial Corps.	$ 3,888,230	.34	$ 5,789,705	.42
Conveyance	1,446,145	.13	1,990,331	.15
Employment Security Contributions	58,324,482	5.13	58,754,843	4.27
Fuel	52,574,785	4.63	53,114,030	3.86
General Excise & Use	576,926,668	50.76	548,914,316	39.91
Income — Corporations	39,313,870	3.46	46,955,151	3.41
Income — Individuals	282,999,930	24.90	334,569,662	24.32
Inheritance and Estate	5,105,869	.45	4,588,542	.33
Insurance Premiums	27,756,730	2.44	23,973,114	1.74
Liquor and Permits	7,701,098	.68	6,963,872	.51
Motor Vehicle Weight/Registration Fees	8,479,169	.75	8,373,079	.61
Public Service Companies	56,987,473	5.01	50,150,497	3.65
Real Property	660,807	.06	217,256,619	15.79
Tobacco and Licenses	14,010,696	1.23	13,799,006	1.00
All Others	353,229	.03	370,954	.03
TOTAL	$1,136,529,181	100.00	$1,375,563,721	100.00

DISTRIBUTION OF COLLECTIONS

STATE FUNDS:				
State General	$ 999,663,074	87.96	$1,037,914.371	75.45
State Highway	36,389,534	3.20	36,873,472	2.68
State Highway (Act 159, S.L.H. 1981)	16,511,734	1.45		
State Airport	4,923,803	.43	4,796,196	.35
Boating Special Fund	357,382	.03	362,384	.03
Unemployment Trust	58,324,482	5.13	58,754,843	4.27
Election Campaign Fund	315,130	.03	150,780	.01
SUB-TOTAL — STATE	$1,116,485,139	98.23	$1,138,852,046	82.79
COUNTY REVENUES:				
Property	$ 660,807	.06	$ 217,256,619	15.79
Fuel	19,383,235	1.71	19,455,056	1.42
SUB-TOTAL — COUNTIES	$ 20,044,042	1.77	$ 236,711,675	17.21
TOTAL	$1,136,529,181	100.00	$1,375,563,721	100.00

STATE GENERAL FUND

Source of Revenue	FY 1982 Amount Collected	FY 1982 % of Total	FY 1981 Amount Collected	FY 1981 % of Total
Banks — Financial Corps.	$ 3,888,230	.39	$ 5,789,705	.56
Conveyance	1,446,145	.14	1,990,331	.19
General Excise & Use	560,414,934	56.06	548,914,316	52.89
Income — Corporations	39,313,870	3.93	46,955,151	4.52
Income — Individuals	282,684,800	28.28	334,418,882	32.22
Inheritance and Estate	5,105,869	.51	4,588,542	.44
Insurance Premiums	27,756,730	2.78	23,973,114	2.31
Liquor and Permits	7,701,098	.77	6,963,872	.67
Public Service Companies	56,987,473	5.70	50,150,497	4.83
Tobacco and Licenses	14,010,696	1.40	13,799,006	1.33
All Others	353,229	.04	370,955	.04
TOTAL	$ 999,663,074	100.00	$1,037,914,371	100.00

STATE HIGHWAY FUND

Gasoline	$ 25,583,269	70.30	$ 25,826,169	70.04
Diesel Oil — Non-Highway	910,730	2.50	1,097,919	2.98
Diesel Oil — Highway Use	1,329,776	3.66	1,480,853	4.01
Liq. Pet. Gas — Off Highway	24,237	.07	24,963	.07
Liq. Pet. Gas — Highway Use	62,353	.17	70,489	.19
Motor Vehicle Weight Tax/Registration Fees	8,479,169	23.30	8,373,079	22.71
TOTAL	$ 36,389,534	100.00	$ 36,873,472	100.00

STATE AIRPORT FUND

Aviation	$ 4,923,803	$ 4,796,196

BOATING SPECIAL FUND

Fuel Used in Small Boats	$ 357,382	$ 362,384

UNEMPLOYMENT TRUST FUND

Tax on Payrolls	$ 58,324,482	$ 58,754,843

ELECTION CAMPAIGN FUND

Political Campaign Contribution	$ 315,130	$ 150,780

FUEL TAX RATES PER GALLON

	State	County	Total
GASOLINE & DIESEL OIL (HWY. USE):			
City & County of Honolulu	8½¢	6½¢	15¢
County of Maui	8½¢	6¢	14½¢
County of Hawaii	8½¢	5¢	13½¢
County of Kauai	8½¢	4¢	12½¢
LIQUID PETROLEUM GAS (HWY. USE):			
City & County of Honolulu	6¢	4¢	10¢
County of Maui	6¢	4¢	10¢
County of Hawaii	6¢	3¢	9¢
County of Kauai	6¢	3¢	9¢

DEPARTMENT OF TAXATION

TRAINING PROGRAMS FOR FISCAL YEAR ENDING 6/30/82

	Training Course	No. of Employees	Hours of Training
1.	Hawaii Public Finance Officers Assn. Financial Seminar	1	20
2.	NTA-TIA Annual Conference on Taxation	1	40
3.	Modern EDP Auditing Course	1	40
4.	Managing Assertively	2	16
5.	Clerical Seminar	39	312
6.	Conference of Civil Service Comm. & Personnel Directors	2	32
7.	Liability Determination — Workers' Compensation	1	8
8.	1981 Hawaii Tax Institute	12	480
9.	IRS Annual Tax Practitioner Institute	17	119
10.	Income Tax Class	74	518
11.	Managerial Skills	1	40
12.	Creative Problem Solving	2	32
13.	Creative Management	4	32
14.	Selection Interviewer's Workshop	1	8
15.	Time Management	2	16
16.	Supervising the Handicapped	1	8
17.	Automated & Integrating Purchasing/Accounts Payable System	1	32
18.	Word Processing Training	2	48
19.	Fundamentals of Data Processing for the Non-Data Processing Executive	2	48
20.	Effective Public Contact	2	16
21.	Quality Control Groups	30	480
22.	Economic Recovery Tax Act	74	592
	TOTALS	272	2,937

Note: List does not include certain general interest training.

OUTLINE OF HAWAII TAX SYSTEM AS OF JULY 1, 1981

Issued by the Department of Taxation

KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
(1) Net Income Chapter 235–Sec. 235-1 to 235-119	The Income Tax Law, adopted with certain exceptions the provisions of the Internal Revenue Code of 1954, with amendments to December 31, 1980, in the determination of gross income, adjusted gross income, ordinary income and loss, and taxable income. The law allows $1,000 personal exemption for individuals (double exemption for those over 65 years or over), $7,000 for a blind, deaf or totally disabled taxpayer, $400 for an estate, $200 for a simple trust and $80 for a complex trust. Tax rates for individuals are: 2.25% on first $500; 3.25% on next $500; 4.5% on next $500; 5% on next $500; 6.5% on next $1,000; 7.5% on next $2,000; 8.5% on next $5,000; 9.5% on next $4,000; 10% on next $6,000; 10.5% on next $10,000; 11% over $30,000. Tax rates for head of household are: 2.25% on first $500; 2.75% on next $500; 3.9% on next $500; 4.1% on next $500; 5.5% on next $1,000; 6.6% on next $2,000; 7.9% on next $5,000; 9.15% on next $10,000; 10.05% on next $10,000; 10.5% on next $10,000; 10.75% on next $20,000; 11% over $60,000. Tax rates for corporations are: 5.85% up to $25,000; 6.435% over $25,000.	Returns due 20th day of 4th month following the close of taxable year. Withholding returns due monthly on or before the fifteenth day of the following calendar month. When the total tax liability is less than $1,000 for the calendar year, returns may be filed quarterly on or before the fifteenth day of the month after the close of each quarter. An annual employer's return and reconciliation of Hawaii income tax withheld Form HW-3 must be filed together with a duplicate copy of each employee's tax statement Form HW-2 on or before the last day of February following the close of the calendar year. Estimates of income of individuals not subject to withholding, April 20th. Estimates of corporations, September 20th.	In general at time of filing returns. Estimates of individuals one-quarter April 20th; June 20th; September 20th; and January 20th. Corporations one-half September 20th and January 20th.
(2) Inheritance and Estate Chapter 236–Sec. 236-1 to 236-44	Hawaii resident tax on shares of net estate. Non-resident tax on shares of net estate having situs in Hawaii. Exemptions (a) Bequests to spouse $100,000; (b) parent, child, grandchild or legally adopted child $50,000; (c) bequests to others $5,000. Tax rates: (a) 2% to 7%, (b) 3% to 8%, (c) 3% to 10%; respectively. Estate Tax on corpus of estate having tax situs in Hawaii, to take advantage of the maximum credit for state death taxes under basic federal estate tax. Tax computed by subtracting inheritance tax from the maximum credit for state death taxes allowed.	The Personal Representative of the decedent's estate shall file a return. If there will be no administration of the estate, the return must be executed and filed by any person in actual possession of decedent's property, such as joint owner, trustees, transferees, beneficiaries, etc.	Payments within 18 months after death.
(3) General Excise (Gross Income) Chapter 237–Sec. 237-1 to 237-49	This is a business privilege tax measured by gross proceeds of sales or gross income. The tax rate is ½ of 1% on wholesaling and intermediary services, blind vendors, producing, manufacturing, sugar processing and pineapple canning; all other activities (retailing business and professional services, contracting, theatre, amusement, radio, interest, commissions, rentals) are taxed at 4%, except insurance commissions received by general agents, subagents, and solicitors who are taxed at .15%. A license must be secured and renewed annually on a calendar year basis. The cost is $2.50, plus an additional 50¢ for certain retailing activities.	Monthly returns are due on or before the last day of the following month. When the total tax liability is less than $1,000 for the calendar year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. An annual summary and reconciliation return must be filed on or before the 20th day of the fourth month following the close of the taxable year.	At time of filing returns.
(4) Use Chapter 238–Sec. 238-1 to 238-16	This is an excise tax levied on tangible personal property which is imported or purchased from an unlicensed seller for use in the State. The tax is based upon the purchase price or value of the tangible personal property purchased or imported, whichever is applicable. Rates: 1/2 of 1%, if for resale at retail; 4%, if for use or consumption. For exceptions, see Sections 238-3 and 238-4.	Monthly returns are due on or before the last day of the following month. When the total tax liability is less than $1,000 for the calendar year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. An annual summary and reconciliation return must be filed on or before the 20th day of the fourth month following the close of the taxable year. These returns have been consolidated with the general excise (gross income) tax returns and are filed simultaneously.	At time of filing returns.
(5) Public Service Company Chapter 239–Sec. 239-1 to 239-11	Nature of Tax–(1) Public utility business in lieu of general excise and real property taxes. (a) Measure of assessment–general rule: Gross income from public utility business of public utilities for preceding calendar year. For exception, see Sec. 239-9. (b) Rates: (i) Gross iincome from passenger fares for transportation between points on a scheduled route by a carrier of passengers, 5.35%. (ii) Sale of its products or services to another public utility which resells such products or services, ½ of 1%. (iii) All other revenues: If ratio of net to gross income is 15% or less, 5.885%; for each 1% increase in ratio of net to gross, rate increase .2675%. (2) Airline, motor carrier, common carrier by water and contract carrier business (other than motor carrier business) in lieu of general excise tax. (a) Measure of assessment–general rule: Gross income from airline, motor carrier, common carrier by water and contract carrier business for preceding calendar year. For exception, see Sections 239-9 and 239-11, (b) Rate: 4% of gross income, except airlines having special fare schedule for students, 3% of gross income.	Returns filed on or before April 20th, based upon calendar year operations of preceding year.	First installment at time of filing return, or, on or before April 20. Other installments on 20th of June, September and December.

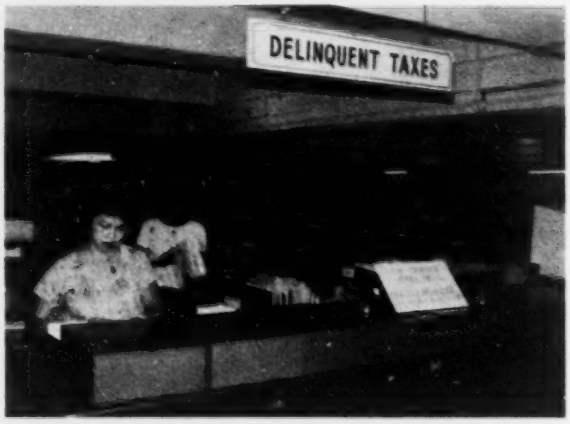
KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
(6) Banks, Building and Loan, Industrial Loan Companies and Certain Other Financial Corporations Chapter 241—Sec. 241-1 to 241-7	(1) (a) Assessment Date: January 1. (b) Nature of Tax: a franchise tax on banks, building and loan, industrial loan companies, financial corporations and small business investment company not subject to taxes imposed by Chapters 235 and 237. (For industrial loan company and small business investment companies exemption under Chapter 237 (gross income tax).) (2) Measure of Assessment: Net income for the preceding year from all sources as defined by Chapter 235 (Income Tax Law) with modifications. (3) Rate: 11.7% of taxable income.	Returns filed on or before April 20, or the 20th day of the fourth month following the close of the fiscal year.	First installment at the time of filing return, or, on or before the 20th day of the 4th month. Other installments due on the 20th day of the 2nd, 5th and 8th month thereafter.
(7) Fuel Chapter 243—Sec. 243-1 to 243-16	Distributors, as defined, are required to pay: 1¢ per gallon on aviation fuel; an initial 1¢ per gallon on diesel oil, liquefied petroleum gas for operation of an internal combustion engine and from 12½¢ to 15¢ per gallon on liquid fuels other than the foregoing; also, pay additional taxes of from 12½¢ to 15¢ per gallon on diesel oil and from 9¢ to 10¢ per gallon on liquefied petroleum gas used to operate motor vehicles upon the public highways; however, they are not required to pay these additional taxes if purchasers furnish Exemption Certificates, Form M-38. Refunds of liquid fuel used for agricultural equipment not operated upon the public highways or diesel oil and liquefied petroleum gas used for motor vehicles not operated upon the public highways may be claimed on Form M-36. Distributors are required to register and be licensed. Licenses are valid until revoked. NOTE: County of Maui fuel tax rate shall be increased effective August 1, 1981, as follows: gasoline and all other liquid fuel (other than aviation fuel sold for use in or used for airplanes), 5¢ to 6¢; diesel oil (highway use), 5¢ to 6¢; LPG (highway use), 3¢ to 4¢.	Returns are due monthly on or before last day of the following month.	At time of filing returns.
(8) Liquor Chapter 244—Sec. 244-1 to 244-17	"Dealers" as defined in the law and certain others who sell or use liquor must pay an excise tax equal to 20% of the wholesale price. A $2.50 liquor tax permit is required and must be renewed before July 1st of each year. See Sec. 244-4 for exemption from tax.	Returns filed on or before the last day of the following calendar month.	At time of filing returns.
(9) Tobacco Chapter 245—Sec. 245-1 to 245-15	"Wholesalers" as defined in the law and certain others must pay an excise tax on sale or use of tobacco products, equal to 40% of the wholesale price. A $2.50 tobacco tax license is required and must be renewed before July 1st of each year.	Returns filed on or before the last day of the following calendar month.	At time of filing returns.
(10) Conveyance Chapter 247—Sec. 247-1 to 247-13	This tax is imposed on all documents transferring ownership or interest in real property. The rate is 5¢ per $100.00 of the actual and full consideration paid or to be paid. Minimum $1.00 tax for each taxable transaction. (Documents of certain conveyances are exempted.)	A certificate of conveyance must be filed with the document at the Bureau of Conveyance within 90 days after a taxable transaction; a claim for exemption from the conveyance tax must be filed for certain exempt conveyances.	At time of filing the certificate, but no later than 90 days after the taxable transaction.
(11) Hawaii Employment Security (Federal) Chapter 383—Sec. 383-1 to 383-174	This is a tax on wages paid, payable by employers of one or more employees with certain exemptions. The law on unemployment insurance benefit financing, amended to be effective January 1, 1979, retains the reserve ratio method of financing and establishes a two-part schedule consisting of a Basic Contribution Rate Schedule and a Fund Solvency Contribution Rate Schedule. The basic contribution rate will reflect the employer's own experience with unemployment and the fund solvency rate will reflect the trust fund's financial condition and experience of all covered employers. The employer's total contribution rate will not be less than 0% or greater than 4.5%.	Returns filed on or before the last day of the month following the taxable quarter.	At time of filing returns.
(12) Insurance Premiums Chapter 431—Sec. 431-1 to 431-726	Tax on insurance companies (Underwriters) based on premiums received in Hawaii. In lieu of all taxes except property tax and taxes on the purchase, use or ownership of tangible personal property. Tax Rates: Life Insurance Domestic 1.918%; Foreign 3.197%; 4.68% on Surplus Lines; Ocean Marine .8775% of 1% on gross underwriting profit; on other Insurance Domestic 2.9647%; Foreign 4.2824%. This law is administered and the tax collected by the Insurance Commissioner who is required to report to the Director of Taxation all amounts of taxes collected under this chapter. See Act 144, 1978, relating to increase in premium rates applicable to all premiums and gross underwriting profit received during calendar year 1979 and thereafter.	Monthly or quarterly interim statements based on previous year's liability filed on or before the last day of the succeeding calendar month. Annual statement filed on or before March 15th with the Insurance Commissioner.	At time of filing statements.

TAXPAYER SERVICES BRANCH

Licensing & Clearance Section

Information & Services Section

ENFORCEMENT BRANCH



Non-Filers Unit

Document Processing Branch

Receiving & Sorting Section

Document Preparation Section

Monetary Control Section

Data Control & Entry Section

File Maintenance & Typing/Clerical Support Section

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Part I Income other than Wages, Dividends and Interest

25	Business income or (loss) (attach Schedule C)	25		
26a	Net gain or (loss) from sale or exchange of capital assets (attach Schedule D)	26a		
b	40% of capital gain distributions (not reported on Schedule D—see page 6 of Instructions)	26b		
27	Net gain or (loss) from Supplemental Schedule of Gains and Losses (attach Schedule D-1)	27		
28a	Purchased annuities, rents, royalties, partnerships, estates or trust, etc. (attach Schedule E)	28a		
b	Fully taxable annuities (not reported on Schedule E—see page 13 of Instructions)	28b		
c	Annuities, where employer contributions are involved (attach Schedule J)	28c		
29	State income tax refunds (does not apply if refund is for year you took the standard deduction — others see page 6 of Instructions)	29		
30	Alimony received	30		
31a	Unemployment compensation. Total amount received			
b	Taxable part, if any, from worksheet on page 6 of Instructions	31b		
c	Other income (state nature and source—see page 6 of instructions)	31c		
32	Total (add lines 25 through 31). Enter here and on line 12 ▶	32		

Part II Adjustments to Income

33	Moving expense (attach Form N-139)	33		
34	Employee business expense (attach Form N-106)	34		
35a	Payments to an individual retirement arrangement, if (SEP) plan, check block ☐	35a		
b	Payments to a Keogh (H.R. 10) retirement plan (attach Form N-151)	35b		
36	Forfeited interest penalty for premature withdrawal (see page 7 of Instructions)	36		
37	Alimony paid (List name and address of recipient)	37		
38	Total (add lines 33 through 37). Enter here and on line 14 ▶	38		

Part III Tax Computation

39	Adjusted gross income (Amount from line 15)	39		
40a	If you itemize deductions, check here ☐, and enter total from Schedule A, line 37, and attach Schedule A, or			
b	If you do not itemize deductions and Line 39 is $15,000 or more check here ☐ and enter $1,000 ($500 if married and filing separate return)	40		
41	Subtract line 40 from line 39 and enter difference (but not less than zero)	41		
42	Multiply total number of exemptions claimed on line 7 by $1,000 (if blind, deaf or disabled, see page 3 of instructions)	42		
43	Taxable income. Subtract line 42 from line 41 and enter difference (but not less than zero)	43		

Figure your tax on the amount on line 43 by using either Tax Rate Schedule I, II, or III and enter tax on line 16. DO NOT USE OPTIONAL TAX TABLE.

Part IV Credits

44	Credit for income tax paid to another state or to a foreign country (attach copy of return and tax receipt)	44		
45	Credit for solar or wind energy devices and heat pumps (attach Form N-157)	45		
46	Credit for child care expenses (attach Form N-141)	46		
47	Credit for insulation of hot water heater tank and hot water pipes (attach Form N-159)	47		
48	Total (add lines 44 through 47). Enter here and on line 17 ▶	48		

Part V Other Credits

49	Credit for excise tax: (a) Exemption from page 1, line 7 ___, plus (b) additional exemptions for minor children receiving support from the Department of Social Services and Housing, etc. ___equals total exemptions___ (see page 8 of Instructions). List full names and social security numbers of each additional exemption claimed for (b):	49		
50	Credit for low income household renter (attach Form N-153)	50		
51	Credit to discourage sale of dangerous items (attach Form N-154)	51		
52	Credit from a regulated investment company	52		
53	Credit for general income tax. Multiply $100 by: (a) the total number of exemptions claimed on line 7 (less exemption for age), plus (b) additional exemptions for minor children receiving support from the Department of Social Services and Housing, etc. (see page 8 of Instructions.)	53		
54	Fuel tax credit for commercial fishers (attach Form N-163)	54		
55	Total (add lines 49 through 54). Enter here and on line 19d ▶	55		